



Semiannual Report to the Congress



as of September 30, 1998



INSPECTOR GENERAL'S MESSAGE

Since the Office of Inspector General's (OIG's) last Report to the Congress, I have been preoccupied with a series of policy-level issues relating to the independence and objectivity of the OIG. Meanwhile, the people of the OIG have moved forward, demonstrating on a daily basis their independence, objectivity, and dedication to the HUD and OIG missions.

We made a commitment to keep the Congress fully and currently informed about the progress of the Secretary's HUD 2020 Management Reform, and we have lived up to that commitment. (See Chapter One of this Report.)

Under the banner of Operation Safe Home, we have maintained steady focus on three types of abuse that seriously undermine HUD programs: violent crime in publicly assisted housing; equity skimming in HUD-insured multifamily housing; and fraud in the administration of public housing programs. Our overall purpose is deterrence through continuing and aggressive enforcement. Since the inception of Operation Safe Home in February 1994:

- The violent crime initiative has leveraged significant federal, state, and local law enforcement resources to improve the quality of life for residents of publicly assisted housing. Currently, task forces are operating in 233 communities and having very significant results. We have also relocated 546 witnesses to violent crime as part of this initiative. (See Chapter Two of this Report.)
- Our focus on fraud in the administration of public housing programs has yielded 124 indictments; 112 plea agreements/convictions; sentences involving 1,116 months in jail and 2,673 months of probation; and \$2,364,975 in fines and restitution. (See Chapter Two of this Report.)
- The multifamily equity skimming initiative has resulted in recoveries totalling \$83 million. This represents settlement of 97 cases involving recoveries of \$66.2 million; court judgments in 14 cases involving \$13.2 million; and criminal convictions resulting from 20 cases that also involved recoveries of \$3.5 million. (See Chapter Two of this Report.)

OIG audit work issued during this reporting period will enable overall assessments in the next reporting period of three of HUD's most significant programs: Drug Elimination Grants, HOPE VI, and Empowerment Zones. Other notable audit work this period included the OIG's first-ever comprehensive review of HUD's Office of Fair Housing and Equal Opportunity and an audit of the progress made by the Puerto Rico Public Housing Administration since that Administration entered into special agreements with HUD. (See Chapter Three of this Report.)

This reporting period, OIG investigative work apart from Operation Safe Home yielded 53 indictments, 35 convictions, 304 years of prison sentences, cash recoveries of \$981,780, court ordered restitution of over \$2.8 million, and fines of over \$934,000. (See Chapter Four of this Report.)

And, finally, OIG staff continued to be actively involved this reporting period in recommending ways to improve proposed HUD legislation, regulations and directives, and in pursuing appropriate action on OIG audit recommendations. (See Chapters Five and Six of this Report.)

The HUD OIG is clearly an organization that deserves the Congress' support, and I am deeply appreciative that the HUD authorizing and appropriations committees and subcommittees, as well as the Committee on Governmental Affairs and the Committee on Government Reform and Oversight, have provided extraordinary support for the OIG this period. Thus, HUD's 1999 Appropriations Act continues funding for Operation Safe Home; the Appropriations Act specifies the IG's authority over IG personnel issues; and the Appropriations Act provides \$18 million for the OIG to implement the Housing Fraud Initiative.

The Housing Fraud Initiative is an innovative approach to identifying fraud in HUD programs. Teams of OIG auditors and investigators, working in collaboration with the Federal Bureau of Investigation and U.S. Attorneys, will proactively and systematically review all HUD funding and activity within six judicial districts for the sole purpose of identifying potential fraud. The goal is to ensure that HUD funding is going to its intended beneficiaries, not being illegally siphoned off before it reaches them.

We believe that this new approach to IG work holds great promise. We intend to show the Congress that your confidence in the HUD OIG's ability to implement the Housing Fraud Initiative was very well placed.

A handwritten signature in black ink, reading "Susan Gaffney". The signature is fluid and cursive, with the first name "Susan" and last name "Gaffney" clearly distinguishable.

Susan Gaffney
Inspector General

HUD Management Issues



HUD 2020 Management Reform Plan

This is the OIG's third Report to the Congress focusing on the status of the HUD 2020 Management Reform Plan. In our last Report, we identified seven key reform actions that needed timely completion. We considered these as key items because so many of HUD's staffing decisions were built around these changes. This Report provides status information on each of these key items. Also, we discuss the recently hired Community Builders because of the increasing role this new staff will play in the operations of the Department.

Concurrent with our last Report, a contractor, Booz-Allen & Hamilton Inc., issued a March 25, 1998 report titled "HUD 2020 Implementation Plan Review." The Secretary prided HUD on the accomplishments of 2020 based on this report. The report's executive summary noted that "HUD's implementation of the Plan to date is sound and, upon substantial implementation of many of the planned reforms by the end of 1998, HUD will be significantly better aligned to meet its Congressionally-mandated mission." The report went on to state that "...it appears that HUD is on track towards having fully implemented the major structural elements of the HUD 2020 Reform Plan by the end of FY 98." This was one of the first formal reports that set out milestone dates for completion of 2020 reform steps. Six months after the contractor's report, we find that many of the major structural elements of the Reform Plan are not on track and their completion may be a year or more away.

HUD Staffing Changes Have Had Major Impact on Operations

Before reviewing the status of key elements of the 2020 Reform, it is important to understand the interplay between HUD staffing changes and the progress of the 2020 Reform effort.

In May of this year, the Secretary revised the original 2020 Reform Plan, which would have reduced the Department's staffing level to 7,500. A new staffing level was set at 9,150. Before this announcement, there were more than 1,500 employees without permanent positions in the "new HUD." At the direction of the Acting Deputy Secretary, a major effort was made this past summer to place these individuals in positions where critical vacancies existed. Most of these placements allowed employees to continue working at their present locations and serve as out-stationed employees for their newly assigned duty stations.

As the Reform Plan was implemented in the past year, there have been major changes in staffing due to newly created and revised positions. These positions were filled through directed reassignments, voluntary reassignments, and merit staffing. Many of these changes are resulting in staffing inefficiencies for several reasons. First, because so many staff moved to new program areas, they do not possess skills matching their new job requirements. Secondly, because a large number of staff are out-stationed, it is more difficult to manage workload and effectively supervise staff. The Department does plan a major training effort in early Fiscal Year 1999 to improve employee skill levels.

Because of delays in 2020 Reform implementation, most of the staffing efficiencies projected to result from HUD 2020 have not yet been realized. The Real Estate Assessment Center has not begun its formal process of scoring

Public Housing and Multifamily projects. While the Enforcement Center and Troubled Agency Recovery Centers are operational, their workloads of problem projects were identified through old business methods. Their existing workloads are well below the workload estimates projected in HUD 2020. Field Offices continue to deal with Section 8 issues at the local level. For the most part, HUD's business operations continue to be conducted as in the past, with far fewer staff. In some instances, the lack of staff in critical positions has caused dysfunction in field locations.

The push to lower HUD's staff size before systems and functions were changed has made for a difficult transition. The OIG is particularly concerned that full implementation of some of HUD's key housing assessment reforms will not take place until late next year or the year 2000. In the following sections, we discuss the key reform actions, their current status, and the effects of delayed implementation.

Real Estate Assessment Center (REAC)

The REAC is responsible for assessing the overall physical and financial condition of HUD's vast housing portfolio, enabling the Department to better target its monitoring and enforcement resources. Because other HUD organizations are so dependent upon its work, the REAC is considered the linchpin of HUD's 2020 management reforms. The Booz-Allen Report identified a June 1998 milestone date for full national implementation of REAC physical and financial assessments. Current estimates are that it may be more than a year before these assessments will be used to target problem projects as described in the Reform Plan.

In the last 6 months, HUD continued to progress in implementing real estate assessment reforms. The REAC is testing and enhancing the Department's new physical inspection protocol and software; refining its new public housing assessment system, including a resident satisfaction survey instrument; and issuing guidance and revised reporting requirements to facilitate property owners' and public housing agencies' (PHAS') compliance with HUD's new electronic financial reporting requirements. Other actions were taken to develop a reliable listing of property addresses; conduct physical property inspections on a test basis; award two national contracts for the conduct of physical property inspections; train contractors' instructors; and provide oversight of contractor-conducted training and certification of inspectors.

On September 1, 1998, the Department published three final rules, each considered critical to the REAC's operations. These rules, effective on October 1, 1998, include: (1) Uniform Physical Conditions Standards and Physical Inspection Requirements; (2) Public Housing Assessment System (PHAS); and (3) Uniform Financial Reporting Standards for HUD Housing Programs. However, HUD's publication of these rules was controversial: both the public and multifamily housing sectors lodged serious objections to the rules and took issue with the shortened time period for providing comments. Although the Department actively consulted with affected parties during the rules' development, industry representatives claimed that HUD ignored many of their concerns expressed during the rules' consultation stages.

The public housing sector, for example, opposed the issuance of the PHAS final rule. They objected because they were not provided ample time to comment, and they took issue with the lack of substance in the PHAS proposed and final rules, as well as with the rule on HUD's physical condition standards and inspection requirements. Of particular concern was the lack of information on the scoring and weighing of performance components. In addition, the American Institute of Certified Public Accountants was concerned that the cost and timing of the financial reporting requirements were unrealistic. Our office expressed similar concerns about the

adequacy of the PHAS and physical condition standards/physical inspection rules and questioned whether their publication was premature (see Chapter 5).

The multifamily housing sector also objected to HUD's new physical condition standards, claiming that the standards exceeded current contractual standards. This sector has expressed concern about the potential incremental cost associated with complying with HUD's new inspection requirements. In addition, this sector also claims that HUD's new electronic financial reporting requirements are too complicated, burdensome and costly.

While HUD refused to delay issuance of the rules, the REAC has taken steps to address some of the industry's concerns. For example, it has developed a physical inspection deficiency list and a handbook to help PHAS in converting their financial statements to comply with Generally Accepted Accounting Principles. HUD's efforts to address industry concerns have delayed implementation of the Department's real estate assessment reforms.

Although the PHAS rule is effective October 1, 1998, the first official PHA assessment scores will not be issued until December 1999, and will affect only PHAS with fiscal years beginning October 1. In the interim, the REAC will be scoring PHAS under the current Public Housing Management Assessment Program (PHMAP) and implementing the new PHAS process on a test basis. Physical inspections of multifamily housing projects by mortgage lenders and servicers are being delayed until the REAC issues the final version of its inspection software and related handbook, which is expected to occur some time in February 1999.

It should be noted that the REAC is not handling all assessments for the Department. The Section 8 Management Assessment Program (SEMAP), designed to measure a PHA's performance in administering the tenant-based Rental Assistance Program, is not a part of the REAC. Current responsibility in HUD for implementing SEMAP rests with the Department's Headquarters program office and Field Hubs. HUD's Troubled Agency Recovery Centers are responsible for monitoring PHAS with "troubled" SEMAP ratings. If these housing assessment programs were consolidated into one organization, the OIG believes the Department would realize staffing and training efficiencies, and would be assured of more consistency and uniformity in assessing the performance of its housing programs. In addition, the organizational fragmentation of HUD's housing program assessment functions would be eliminated, which appears to be a primary objective of HUD's 2020 management reform program.

Contracting for Project-Based Section 8 Administration

In our last Semiannual Report to the Congress, we identified HUD's planned actions to move from a retail to a wholesale method of managing the Section 8 portfolio as a critical element of the Reform Plan. HUD was no longer staffed to manage a retail operation. In July 1998, a Financial Management Center (FMC) was established in Kansas City, MO, to provide for the electronic, integrated financial management of all Section 8 Rental Assistance Programs. It was intended that the FMC would provide oversight to a limited number of Contract Administrators that would manage the retail operations of Section 8. In our March 1998 Semiannual Report, we commented on a Request for Proposal (RFP) that would provide for contract administrative services for the 21,000 housing assistance payments contracts administered by HUD.

This RFP has been delayed for two primary reasons. First, the Office of Management and Budget (OMB) has asked HUD for a cost-benefit analysis of the

proposal. Secondly, OMB has asked that a performance-based contract be developed containing incentive and disincentive clauses to assure that contractors perform at an optimum level. As of the end of September, there was uncertainty as to the status of this contract action.

In the interim, the management of the Section 8 portfolio has become a difficult task. HUD still must manage some 21,000 housing assistance payments contracts with owners and some 10,500 annual contributions contracts with PHAs or state housing finance agencies. Functions include reviewing budgets, scheduling payments, contract preparation and execution, computer system updates and post-payment reviews. These activities are currently being performed through a patchwork of staff. FMC permanent staff is comprised of 76 employees. Because of difficulty in filling the positions in Kansas City, 37 of the 76 staff are out-stationed in 21 other locations. The FMC also has an additional 51 employees located throughout the country to assist with Section 8 matters on a temporary basis until contract administrators are in place. The oversight of staff and management of workload are major tasks. In addition, many of the newly assigned staff are not trained for their new assignments.

The work associated with Section 8 payments is highly labor intensive, which was one of the major reasons for moving these operations to contract administrators. Not only are the FMC staff involved with the payment process, but Multifamily field staff have the day-to-day contact with owners and must deal with Section 8 matters. The delay in contracting out this function has diverted much of the attention of several hundred staff from adequately monitoring multifamily and PHA projects. The projected Reform efficiencies to be gained from moving these routine functions from the field so that greater attention could be focused on monitoring have yet to be realized. The Booz-Allen Report identified a milestone date of September 30, 1998, to complete conversion of all Section 8 workload to the FMC. We are uncertain when this conversion will be completed.

***Contracting for
Disposition and/
or Management
of HUD Owned
Single Family
Properties (REO)***

During our last reporting period, the Department was considering plans to dispose of its single family inventory through "pipeline sales," that is, selected contractors would purchase all of the properties in the foreclosure pipeline before properties entered the HUD inventory. This change could move HUD from the heavy workload associated with the day-to-day management of properties to a more limited contractor oversight responsibility. This idea received mixed reaction from the public and Congressional staff; to our knowledge, the idea of "pipeline sales" was subsequently tabled. Currently, the Department is pursuing contracts for Management and Marketing Services. A contractor or contractors will be selected to manage HUD properties, market them for sale, oversee sales closing, and provide an accounting to HUD for the sales proceeds. The current solicitation requests proposals by October 20, 1998. Optimistically, these contracts could be in place and operating by the end of this calendar year.

In the interim, the four Home Ownership Centers (HOCs) continue with responsibility for insurance production, managing assigned notes, and management of REO by the Department. Single family staffing was cut by more than 50 percent by the HUD 2020 Management Reform Plan. It was never intended that the HOCs would handle the full range of loan management and property management and disposition functions they are currently handling. Staffing decisions were based on the assumption that HUD's inventory of assigned notes would be sold and that contractors would manage the property disposition process. Since neither of these contract actions has

taken place, the remaining single family staff have an overwhelming workload. The Booz-Allen Report set a milestone of October 1998 for completion of the HOC workload strategy, that is, streamlining or outsourcing REO activities and selling nearly all assigned notes. Until REO contracts are in place and notes are sold, this strategy will not be met.

At July 31, 1998, the Department had an inventory of 12,577 Secretary held notes valued at \$695 million. A sale to dispose of the majority of these notes, planned for the Spring of 1998, was canceled. The servicing of these assets continues to be limited and sporadic due to staffing changes in HUD. Servicing continues to be shifted among field offices that have capacity to assist with the work. Currently, these assigned mortgages are only receiving limited servicing, that is, borrowers are receiving standard delinquency notifications. If borrowers are still unresponsive, no foreclosure actions are taking place. We were told by HUD management that no foreclosure actions have been initiated since September 1997. This lack of action will prove costly as the value of HUD's assets declines from inadequate oversight and borrowers sink further into debt from limited servicing.

The management of REO is proving even more troublesome. Our recent survey of the REO function in the Atlanta and Santa Ana HOCs found an overwhelming workload and staff inexperienced with REO matters. Staff problems were so severe in Coral Gables, Jacksonville, and Birmingham that emergency Management and Marketing contracts were let for contractors to handle the normal field office staff duties. In Birmingham, Atlanta, and Chicago, Real Estate Asset Managers (REAMs) were hired to oversee other REAMs. Workloads were often shifted among offices because certain offices had no REO staff. HUD's oversight of contractors brought in to help was woefully inadequate. Coral Gables was so short of staff that they had not visited their REAM contractor since November 1996. Jacksonville staff had not visited their REAM contractor since June 1997. One field office was so short staffed that the REAM contractor performed the work, inspected the work, and approved payment to themselves.

Workloads have reached unmanageable levels in many offices as more properties are added to the inventory. In Coral Gables, the inventory nearly doubled in one year to 2,449 properties as of July 1998. Los Angeles properties increased from 2,648 in September 1997 to 5,297 in July 1998. This increased workload with insufficient staff has lengthened the processing times for moving properties through the disposition process.

After HUD pays a claim, the first step is to enter the property into HUD's tracking system, the Single Family Acquired Asset Management System (SAMS). As a direct result of staffing shortages, on September 17, 1998, the Santa Ana HOC discovered 154 HUD owned properties in the Los Angeles area that were not entered in SAMS. Of the 154 properties, claims were paid on 22 of these properties more than 6 weeks earlier. In one case, the claim was paid in July 1997. None of these properties had been assigned to a REAM contractor to secure and maintain.

SAMS defines the timeframes for the various disposition steps. At the end of July 1998, over 40 percent of the REO properties nationwide exceeded SAMS standard processing timeframes. With HUD's estimated property holding cost at about \$29 per day and with more than 41,000 properties in inventory,

management delays in disposing of these properties are costing HUD over \$1 million per day.

Troubled Agency Recovery Centers (TARCs)

Under HUD's 2020 Management Reform Plan, two TARCs were established in Cleveland and Memphis. Out-stationed TARC staff are also located in the Department's Hubs. The Booz-Allen Report projected an October 1, 1998 date for the TARCs to be in a fully operational condition. Staffing levels were set based on an estimate of 575 troubled PHAs that would be identified through the REAC assessment process. However, due to delays in the REAC's becoming operational, problem PHAs are currently identified through old business methods.

The TARCs are vital to the success of HUD's public housing reforms, since they are responsible for developing and implementing intervention strategies for "troubled" PHAs to enable them to achieve passing scores under the Department's PHMAP/PHAS Programs. The TARCs are responsible for referring troubled PHAs that are not progressing satisfactorily to the Department's Enforcement Center for potential receivership action.

We recently visited the two TARCs to assess their progress against the reform plans. The TARCs are making good progress in improving staff skills. We found staff morale and commitment to be high. However, certain current or potential operating problems need to be addressed, as described below:

- The geographical dispersion of the TARCs' assigned workload requires major travel dollars. Any significant reduction in travel funds could seriously impede the TARCs' operations.
- The span of control over TARC staff is difficult because some of the TARC staff is out-stationed in the Department's Hubs, while staff supervisors are located in the Cleveland and Memphis centers. This makes it harder to manage work assignments and ensure quality control.
- The TARCs have been assigned the responsibility of monitoring troubled PHAs' performance against agreed upon recovery actions outlined in Memoranda of Agreement (MOAs). However, significant staff time is being spent providing direct technical assistance to PHAs to help them correct their problems. While a laudable endeavor, this poses a potential conflict because the TARCs are responsible for monitoring progress and referring PHAs to HUD's Enforcement Center for receivership action if progress is unsatisfactory. Technical assistance would appear to be a more appropriate role for the field office Hubs.
- HUD is deploying considerable staff resources to monitor a relatively small percentage of troubled PHAs. HUD needs to make sure that sufficient staff is available and used for monitoring and assisting standard performing PHAs, so their performance continues to remain acceptable.
- The Headquarters Office of Troubled Agency Recovery needs to accelerate the completion of its independent management assessments contracts. Independent management assessments of troubled PHAs are required by the United States Housing Act of 1937, and are critical to the TARCs' operations. Until they are completed, the TARCs cannot execute corrective action agreements, i.e., MOAs, with troubled PHAs, as required by statute. Currently, as an interim measure, the TARCs are negotiating Recovery Plans with troubled PHAs. However, these plans must be renegotiated and converted to MOAs once the independent management assessments are completed.

- HUD needs to develop formal operating procedures and plans so TARCS operate consistently and uniformly, and in coordination with the REAC and Enforcement Center. While such procedures and plans are underway, an effort should be made to accelerate their completion.

Office of Multifamily Assistance Restructuring

Mark-to-Market legislation was enacted in October 1997 to ensure the long-term viability of multifamily projects that receive project-based rental assistance and have HUD mortgage insurance. The law provides for HUD to establish a new office, referred to as the Office of Multifamily Housing Assistance Restructuring (OMAR), to restructure project mortgages to market levels and reduce rental assistance accordingly. OMAR is to be under the management of a Director, appointed by the President with the advice and consent of the Senate. If the initial appointment of the Director was not made by October 27, 1998, the operation of the program would immediately be suspended.

On October 21, 1998, the OMAR Director was confirmed by the Senate. The staffing of the office has been delayed by the late selection of the Director. Interim regulations for the permanent Mark-to-Market Program were issued on September 11, 1998, with final regulations currently expected to be issued in December 1998. A program design manual, along with related restructuring guidelines, are being developed but have not been placed into Departmental clearance. Yet, a request for qualified entities to participate with HUD in restructuring mortgages was published this past August. With the lack of participation in the Mark-to-Market Demonstration Programs and the delays experienced in implementing a permanent program, little progress has been made in reducing excessive Section 8 rents that plague this portfolio.

Budget and Contracting

HUD's Fiscal Year 1999 budget for salaries and expenses is in line with the Fiscal Year 1998 budget. Overall, the funding for travel, training, and contracting is similar to prior year expenditures. However, we remain cautious that sufficient funding will be available to carry out certain activities. The costs of Section 8 contracting activities and the costs for managing and marketing contracts are still uncertainties. Travel dollars for program staff have been reduced by the allocation of travel funds for Community Builders. We are constantly told by program staff that their travel funds have been reduced to such a level that they will be unable to perform the necessary monitoring of program recipients. Major training dollars will be needed to bring untrained staffs up to speed. The extent of training required is still being developed.

HUD Procurement

The Department is making good strides to improve HUD's procurement operations. Since our September 1997 audit report on HUD Contracting, HUD has hired a Chief Procurement Officer, who now reports directly to the Deputy Secretary. The Chief Procurement Officer and his staff have been working on numerous operational improvements. Specific changes include:

- HUD has established a Contract Management Review Board to review and approve each program office's procurement strategy for contracts exceeding \$5 million. It is anticipated that the review of Fiscal Year 1999 plans will be completed in October 1998. The Board will conduct periodic reviews of each program office's progress in implementing approved strategic plans and will periodically sample active contracts to ensure quality and timeliness of performance.

- Legal reviews and input will be required on all contracts over \$5 million. The Office of General Counsel will establish a team of contract specialists to review contract terms and assist in negotiations to assure contract legality. The Chief Procurement Officer will be issuing instructions on obtaining legal reviews by October 1998.
- A Government Technical Representative (GTR) Certification Program has been established and GTRs will be trained in cost and price analysis by the end of Fiscal Year 1999.
- Interfaces between the HUD procurement system and the accounting system are being made to provide HUD the capability for comprehensive financial reporting by contract at the transaction level.

Community Builders

In our September 1997 Semiannual Report to the Congress, we raised concerns over the HUD Community Builder concept under HUD 2020. While we did not cite this as a critical action in our March 1998 Semiannual Report, Community Builders will be having a major impact on HUD operations as they begin dealing with communities over the next several months.

The HUD 2020 plan calls for a cadre of approximately 600 Community Builders. Approximately 400 of these positions are career employees and another 200 employees are temporary employees called Community Builder Fellows, who will serve 2- to 4-year terms. In September 1998, HUD hired and trained about 130 of the Community Builder Fellows. Community Builder Fellows, who have varied backgrounds, are undergoing an extensive and costly training program to include 2 weeks at Harvard University in October and November 1998. This training is intended to hone negotiation and facilitation skills and educate Community Builder Fellows on current policies and issues concerning cities. The Department anticipates hiring another 100 Community Builder Fellows later this year.

Community Builders are to serve as HUD's link to communities, and will be responsible for assisting communities in identifying their needs and coordinating the development and implementation of Integrated Service Delivery Plans. The mission and role of Community Builders are still evolving. HUD is still finalizing Business and Operating Plans which will define the roles of Community Builders and those employees responsible for monitoring HUD programs (Public Trust Officers). It will be critical that both types of employees work in unison and that Community Builders' operational costs, such as travel, are not funded to the detriment of Public Trust Officers' needs.

Operation Safe Home

Operation Safe Home will soon enter its fifth year. Since February 1994, Safe Home has focused on violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

Because Operation Safe Home uses non-traditional techniques, and employs a long-term approach to fighting crime, fraud, and equity skimming, the lives of those residing in public, assisted, and HUD insured housing are improving. These improvements are seen not only in reductions in crime rates, safer environments, and better living conditions as money is used for repairs and maintenance, as intended, but also in an overall enhanced quality of life.

The following reflects the activity, by state, for each of the three areas under Operation Safe Home.



Violent Crime in Public and Assisted Housing

As we continue to combat violent crime in public and assisted housing, we are seeing our efforts paying increased dividends in the form of improved quality of life for residents. More and more residents have been expressing their appreciation for our law enforcement operations, and participating in our post enforcement activities. Post enforcement activities are directed toward continuing to keep the criminal element away by enabling residents and the local community to participate in reclaiming their neighborhoods. Post enforcement efforts are usually initiated after a major law enforcement effort has rid the area of crime. We also continue to provide witness relocation services, enabling witnesses to crime in public and assisted housing to testify against the criminal element while at the same time remaining safe from harm.

Our efforts to combat violent crime in public and assisted housing stem from our initiation and/or participation in federal, state, and local law enforcement task forces. In addition to law enforcement personnel from states, counties, cities, and housing authorities, the following federal agencies are primary partners in Operation Safe Home: the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco, and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ).

Examples of task force operations during this reporting period are presented below by state. In some of these examples, there are references to locations as "Priority Cities." The "Priority Cities" are 13 locations where, at the direction of the Attorney General, the U.S. Attorney's Office coordinates the efforts of law enforcement agencies, housing managers, residents, and public service groups to reclaim areas of publicly funded housing that are plagued by violence.

Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	1,777	17,379
Seized Weapons ¹	259	2,428
Cash	\$608,368	\$5,220,119
Drugs ²	\$7,667,228	\$36,613,573
Search Warrants	190	2,092

¹ Includes 26 shotguns and assault weapons seized during this reporting period, for a total of 246 to date.

² Estimate based on measurable quantities.

Law Enforcement Task Forces

Arizona

OIG Agents and the **Phoenix** Police Department conducted a “demand reduction” operation at Via Hermosa Apartments, a 144-unit project-based Section 8 complex. This complex has been plagued by dealers selling crack cocaine in the parking lot, and several drive-by shootings have taken place. Narcotics Officers previously purchased contraband from drug dealers, and on the night of the operation, four dealers were arrested. Undercover Officers then posed as sellers, and in a “reverse sting,” 14 buyers were arrested for either trespassing or attempting to purchase drugs while on the development’s property. In addition, 2 handguns and about 25 grams of crack cocaine were seized. Two of the sellers were identified as living in the complex; the eviction process has been initiated for these residents. Continued police presence is planned, including routine bike patrols and the initiation of a block watch.

California

In **Los Angeles**, 32 individuals were arrested and 43 grams of rock cocaine, 97 grams of powder cocaine, 211 grams of marijuana, 8 grams of methamphetamine, 12 weapons, including a semi-automatic Uzi assault weapon, and \$1,557 in cash were seized following operations by the Los Angeles Metropolitan Task Force on Violent Crime in public and assisted housing communities. The Task Force has significant experience in addressing violent drug related gangs. One individual arrested at the Ramona Gardens public housing development for possession of rock cocaine was known to be associated with the *Big Hazard Gang* and the *Mexican Mafia*. Two others, arrested in a residence adjacent to the Estrada Courts public housing development on charges of murder, were known to be members of the *White Fence* and *Varrio Neuvo Estrada Courts* gangs. Near the San Fernando Gardens public housing complex, two people arrested for being under the influence of a controlled substance were associated with the *Pacoima Pierce Street* gang and the *Van Nuys Boys* gang. Two others, arrested near the Pico Gardens and Aliso Apartments public housing developments for possession of cocaine for sale and being a felon in possession of a handgun, were connected to the *East Los Angeles Thirteen* gang.

This Task Force is made up of the FBI, OIG, Los Angeles Police Department, Los Angeles Sheriff’s Department, and the California Department of Corrections.

Forty-one people were arrested and 32 rocks of cocaine, 79 bags of marijuana, and \$2,600 in cash were seized during initiatives in **Oakland**. Safe Home Task Force members, including OIG, the Oakland Police Department, and the Oakland Housing Authority Police Department, conducted a narcotics operation in and around the Lockwood Gardens and Coliseum public housing complexes. This effort was combined with a “parolee-at-large” sweep and included the ATF, INS, USMS, USPS, Social Security Administration OIG, State of California Department of Corrections and Bureau of Narcotics Enforcement, State Parole, California Youth Authority, Alameda County Sheriff’s Department, and County Probation. The investigation targeted an area that has a 20-year history of violence and prostitution, and is known to be the most prolific open air drug market in Oakland.

In **Alameda, Contra Costa, and San Francisco Counties**, 32 people were arrested and 1 semi-automatic pistol, 6 grams of methamphetamine, 13 grams of marijuana, and 1,852 rounds of ammunition were confiscated. The 3-day sweep included the arrest of a convicted child molester and the arrest of a homicide suspect wanted on a \$2.5 million warrant. This Safe Home/U.S. Marshals Task Force was coupled with an existing Weed and Seed site in Contra Costa County to serve the needs of public housing residents. The Task Force is made up of the USMS, USSS, USPS, INS, Social Security Administration and HUD OIGs, ATF, State of California Department of Corrections and Bureau of Narcotics Enforcement, State Parole, California Youth Authority, California Department of Social Services, Richmond Police Department, Alameda County Sexual Assault Task Force, Contra Costa County Sheriff's Department, and Contra Costa County Probation.

In **San Francisco**, a "Priority City," the Police Department's Housing Task Force and OIG executed five search warrants at the Robert Pitt public housing development. The previous week, a local gun dealership was burglarized, and about 140 weapons were stolen. During execution of the search warrants, a vehicle was seized, containing 19 of the stolen weapons. Another five weapons were found by the time the searches were completed. Four people were arrested.

A Safe Home Task Force, made up of the **San Diego** Police Department Narcotics Division, ATF, INS, USMS, OIG, and the Border Patrol, executed arrest warrants in public and assisted residential communities for 35 individuals sought by authorities on narcotics and firearms violations. The operation culminated a 4-month undercover storefront operation initiated by the San Francisco Police Department in conjunction with ATF and OIG. The Task Force made controlled purchases of narcotics, stolen property and vehicles, and firearms from known and suspected gang members and drug dealers in and around the Linda Vista Apartments, a development owned and managed by the San Diego Housing Commission. To date, 25 individuals have been arrested, and 9 pounds of methamphetamine, 248 grams of cocaine powder, 31 grams of cocaine base, 944 grams of marijuana, and 11 firearms have been recovered.

Colorado

In **Denver**, OIG, along with members of the North Metro Drug Task Force and the Thornton Police Department, served 4 federal search warrants at the Northgate Townhouse Apartments, a 100 percent Section 8 tenant-based complex. The Task Force had received allegations that the on-site manager had been accepting drugs and/or money from applicants and subsequently qualifying these individuals to remain at Northgate. Numerous documents and records were seized from the manager's office and the manager was arrested when methamphetamine was found in her unit at the complex. The assistant manager/leasing agent was also arrested on a outstanding warrant held by Adams County for a previous charge of employee theft. A third individual was arrested for possession of a controlled substance when methamphetamine and drug paraphernalia were found in his unit.

OIG Agents and members of the West Metro Drug Task Force conducted a buy/bust operation for crack cocaine in **Lakewood**. An OIG Agent purchased an ounce of crack cocaine from an individual who regularly sells and delivers controlled substances to a Section 8 subsidized apartment complex. Two previous buys of crack cocaine were made from the individual, for a total of 47 grams of crack cocaine.

The individual was arrested for possession and distribution of crack cocaine. The Section 8 recipient in whose unit the buys occurred was arrested for conspiracy to distribute for crack cocaine.

Connecticut

The Federal Gang Task Force has been active in and near the **Hartford** area since the inception of Operation Safe Home. During this reporting period, the Task Force arrested 68 people and confiscated \$11,244 in cash, approximately 506 grams as well as an additional 83 rocks of crack cocaine, 14,571 bags of heroin, 44 bags of marijuana, and 5 weapons. Recent efforts include high visibility operations in the Dutch Point public housing development during which a person was arrested and charged with possession of narcotics with intent to sell; the arrest of two juveniles in a densely populated Section 8 neighborhood on charges of possession of narcotics; the arrest of two people who were providing drugs within several public housing properties; the arrest of a major drug dealer who supplied drugs to the Nelton Court and Bellvue Square public housing complexes; and the arrest of an individual who admitted to selling heroin in the Sands housing complex, where the majority of residents receive Section 8 assistance. This Task Force is made up of the FBI, OIG, Connecticut State Police, Connecticut Department of Corrections, and the Hartford Police Department.

In **New London**, OIG, the Connecticut State Police, and the New London Police Department executed two search warrants in densely populated Section 8 neighborhoods. They arrested 4 people and seized \$2,721 in cash, over 2 ounces of pre-packaged crack cocaine worth about \$4,000, 1 9mm Tec-9, and 1 automatic pistol.

District of Columbia

In **Washington, DC**, a “Priority City,” OIG and the Metropolitan Police Department’s (MPD) Gun Recovery Unit continued to make headway in fighting crime and drugs in public and assisted housing. In total during this reporting period, 65 individuals were arrested on firearms charges, 34 search warrants were executed, and \$8,600 in assets, \$5,450 in cash, about \$27,000 worth of narcotics, and 63 firearms were seized.

In one significant effort, street level enforcement operations in one of the District’s highest crime areas netted the arrest of 3 individuals and the seizure of 7 grams of crack cocaine, 8 grams of marijuana, \$1,200 in cash, and 2 loaded handguns — a 9mm and a Tec-9 auto-pistol. While OIG Agents and MPD Officers were arresting one of the individuals for carrying a concealed loaded firearm in the Highland Dwellings/Valley Green public housing community, they overheard several gunshots coming from another section of the complex. They quickly responded, and with the help of a tip from a local citizen, located and arrested the shooter who was hiding under a bridge overpass. The shooter was holding a loaded pistol and was in possession of several grams of crack cocaine. The third individual was arrested by an OIG Agent and charged with possession with intent to distribute. He was found on a school playground in/around the public housing complex holding 26 bags of marijuana and several hundred dollars in cash. He later admitted to selling the drugs.

Since the inception of this city-wide initiative in January 1998, the OIG and MPD have seized 97 firearms, \$36,000 worth of illegal drugs, and \$20,500 of assets, executed 48 search warrants, effected 56 firearms arrests, and made 107 other arrests stemming from incidental criminal charges, all of which occurred in HUD public and assisted housing communities. As part of the post enforcement effort of this long-term initiative, 10 persons have been referred for eviction and 3 have been evicted from HUD assisted housing.

Our Safe Home efforts have uncovered crimes even more serious than drug dealing. In one operation, members of the High Intensity Drug Trafficking Area (HIDTA) Task Force, consisting of OIG, ATF, and the MPD, executed an arrest warrant on a member of the *640 Crew* gang, charging him with first degree murder. Evidence documented that the gang member sold crack cocaine at a public housing complex and in the process killed a rival crew member. Another HIDTA operation resulted in the arrest of the subject of an ATF undercover operation and the seizure of 40 grams of crack cocaine, a semi-automatic rifle, and 40 pounds of ammunition.

As an example of continuing post enforcement efforts, residents at the Kelly Miller Family and LeDroit Park Senior public housing communities celebrated their 4th Annual Family Day and Picnic. These celebrations stem from a 1995 Operation Safe Home enforcement effort that restored safe housing for residents who had been under siege by gang members responsible for an open air drug market. The HUD Inspector General and staff attended the celebration, which marked 4 years of sustained Safe Home efforts designed to ensure a safe community. The Inspector General toured a playground and park completed on-site over the summer and sponsored by Howard University Hospital and OIG. The National Park Service delivered a Showmobile used by the entertainment acts, and Howard University provided a Moon Bounce for the kids. The District of Columbia Housing Authority recently completed a comprehensive occupied unit rehabilitation program for Kelly Miller/LeDroit units.

Florida

The **Tampa** Safe Home Task Force arrested 26 individuals who had been federally indicted for selling crack cocaine and weapons in the Central Park Housing Village, a public housing development. The indictments were the result of a 10-month undercover investigation by the Task Force, which consists of the ATF, OIG, and Tampa Police Department.

As part of a Safe Home effort, the **Bunnell** Police Department, Bunnell Housing Authority (BHA), DEA, USCS, Florida Department of Law Enforcement, and OIG sponsored a Safe Home Festival for BHA residents to initiate the post enforcement phase of the operation. The enforcement phase has resulted in 80 individuals indicted for selling drugs in BHA developments. The Festival was attended by over 500 BHA residents and provided an opportunity for residents and law enforcement officials to come together in a non-threatening environment. Activities included drug awareness and reduction education, crime prevention information, child safety seminars, and demonstrations. In addition, resident survey forms were distributed to obtain feedback on the success of the operation, the safety of BHA developments, and input on other concerns.

Georgia

In **Atlanta**, designated a “Priority City,” the Weed and Seed Task Force, including OIG and the Atlanta Police Department, conducted buy/bust operations in several public housing developments and arrested seven people and seized small amounts of cocaine and marijuana.

After tracking the interstate movements of a suspected drug trafficker, the Metropolitan **Atlanta** HIDTA Task Force, FBI, OIG, and Georgia State Patrol intercepted a vehicle as it returned from Miami, FL. After a drug dog alerted law enforcement, a search resulted in the seizure of 72 kilograms of cocaine and the arrest of 2 individuals. Law enforcement information indicated that the cocaine was to be delivered and distributed in an area of Atlanta known as The Bluff, in the vicinity of the Herndon Homes public housing development. The following day, four vehicles and one boat were seized in connection with the drug arrest. In addition, a search warrant obtained for the residences of the individuals arrested resulted in the seizure of 2 more kilograms of cocaine, 2 vehicles, 1 motorcycle, 2 handguns, 1 shotgun, fur coats, jewelry, and audio/video equipment.

An **Atlanta** Priority City Safe Home post enforcement phase was initiated with the opening of the Promoting Alternatives, Suggesting Solutions, and Generating Excellence (PASSAGE) Program in the Bowen Homes public housing development. The Bowen Homes PASSAGE Program, a partnership among the Atlanta Housing Authority, Fulton County, and OIG, is an education based and youth oriented program to reduce juvenile violence in Atlanta public housing communities. The Atlanta Housing Authority donated space to conduct training for 60 children. The opening of the program was attended by over 500 residents from Bowen Homes, who participated in activities and toured the PASSAGE Program unit. The Housing Authority’s Executive Director, the HUD Georgia Office Public Housing Director, Fulton County Commissioner, U.S. Attorney, and OIG Deputy Assistant Inspector General for Investigation spoke at the opening. The OIG Office of Audit also provided support and assistance at the opening to make it a huge success.

The Organized Crime Drug Enforcement Task Force has continued to be active in publicly funded residential communities in **Gainesville**. Task Force members arrested two individuals for selling drugs in the Ridgecrest Apartments, a HUD insured development. The individuals were attempting to sell methamphetamine with a street value of \$20,000 to undercover Agents. In addition to the arrests, 3 pounds of methamphetamine and 1 vehicle were seized. In another operation, the Task Force arrested two individuals for selling 1 pound of methamphetamine, with a street value of \$58,000, in Gainesville public housing developments. These individuals are involved in gang activity within public housing, including selling drugs, assaults, burglaries and murders. One of the individuals is associated with the *Brown Society Vatos* and *SUR-13* gangs. This Task Force consists of the FBI, ATF, INS, OIG, Gainesville Police Department, and the Hall County Sheriff’s Department.

Hawaii

Ten individuals were arrested on federal warrants following their indictment for selling narcotics in and around the Mayor Wright public housing

development in **Honolulu**. The following day, undercover officers posed as the arrested individuals, in a “reverse sting,” and documented on videotape drug sales to 33 individuals, all of whom were arrested. In addition, 10 vehicles were confiscated. This operation was conducted by the Honolulu Police Department with the assistance of the FBI, DEA, and OIG.

Illinois

The “Stormy Monday” Task Force, including the Chicago Housing Authority Police Department and OIG, operates in and around **Chicago**, a “Priority City.” During this period, the Task Force arrested six members of the *Black Disciples* street gang at the Ogden Courts public housing development on charges of distribution of narcotics and possession of a controlled substance.

The Ford Heights Task Force executed 32 arrest warrants and arrested 21 individuals after a 3-month undercover investigation. The investigation focused on crack cocaine sales by the *Gangster Disciples* street gang in and around public housing developments in **Ford Heights, Chicago Heights** and **Robbins**. The developments included Wentworth Gardens, John Mackler Homes, Sunrise Apartments, Lena Canada Homes, Richard Flowers Homes, and Edward Willet Homes. The remaining 11 individuals are being sought. This Task Force includes OIG, the Cook County Sheriff’s Police Gang Crimes Unit, the South Suburban Gang Initiative, and the Chicago Heights Police Department.

As part of a post enforcement effort, the Housing Authority of Cook County issued 17 notices of termination based on referrals of 19 households pursuant to HUD’s “One Strike and You’re Out” policy.” The referrals for termination, which include 18 public housing units and 1 Section 8 residence, stem from the arrests of individuals for delivery and/or possession of controlled substances and gang activity uncovered by the **Fort Heights** Task Force.

In **Rockford**, the SLANT (State Line Area Narcotics Team) Task Force, including the Illinois State Police and OIG, executed a search warrant at a distribution center for the Fairground and Jane Adams public housing developments. Three individuals were arrested and 539 pounds of marijuana, \$109,925 in cash, and a handgun were seized. In another effort, the SLANT Task Force executed a search warrant that resulted in the arrest of 2 members of the *Traveling Vice Lords* street gang and the seizure of 7 grams of crack cocaine and \$1,100 in cash. The search warrant was served at a distribution point for the *Mafia Insane Vice Lords* gang operating in and around the Black Hawk public housing development.

Indiana

The **Gary** Task Force continues to be active in this “Priority City.” An OIG Agent and a Gary Police Officer arrested an individual wanted on a federal arrest warrant for possession with intent to distribute crack cocaine in the Delaney public housing development. Also at the Delaney development, the Task Force executed a search warrant and charged an individual with possession of a controlled substance with intent to distribute cocaine and resisting arrest. Finally, the Task Force arrested six individuals during the execution of a search warrant at a Section 8 property. They seized 317 rocks of crack cocaine, 1/2 ounce of unpackaged crack cocaine, and 4 weapons, including a 12-gauge shotgun. The Task Force includes OIG and the Gary Police Department.

Also in **Gary**, the Task Force assisted the ATF Violent Crime Task Force and Officers from the Lake County Sheriff's Department in pursuing two federal fugitives who were living in the Ivanhoe Gardens public housing development. The fugitives are members of the *GI Boys* gang. One individual was arrested and a fully loaded assault rifle, shotgun, and revolver, as well as marijuana and cocaine, were seized.

Kansas

In **Topeka**, the Safe Home Task Force had a major impact on the lives of public and assisted housing residents during the past 6 months. Over 139 grams of crack cocaine, 95 grams of powder cocaine, 123 grams of marijuana, 300 grams of methamphetamine, \$211,258 in cash, 18 weapons, counterfeiting contraband, 4 vehicles, and \$15,000 in household furniture and property were confiscated during Safe Home operations. In addition, 62 people were arrested, 8 were indicted on drug charges, 10 were issued restraining orders, 18 residents were evicted, and a "bar and ban" was issued against 75 individuals. These actions stemmed from initiatives during which the Task Force targeted illegal drug activities at Topeka public housing developments for the elderly and disabled; conducted street level enforcement operations in and around the Deer Creek and Pine Ridge public housing complexes (areas known for their high crime rate and open air drug markets); and arrested a public housing resident on drug and weapons violations and child endangerment. This Task Force is made up of the OIG, USSS, Kansas Bureau of Investigation (KBI), Topeka Police Department, and the Shawnee County Sheriff's Department.

Four federal search warrants were executed and five arrests were made in connection with a crack cocaine distribution conspiracy that was headquartered in a compact disc store in **Kansas City**. In addition, 7 individuals were indicted by a federal grand jury with conspiring to distribute more than 50 grams of crack cocaine. One of the individuals arrested had a Section 8 certificate and was associated with a dealer residing in public housing. This investigation began when undercover agents purchased crack cocaine from a public housing resident and from a Section 8 resident. OIG, the KBI, and the Bonner Springs Police Department originated the investigation, and were later joined by the FBI, DEA, and Kansas City Police Department. The Task Force seized 4 ounces of crack cocaine with a street value of \$11,200, 2 ounces of cocaine powder with a street value of \$1,700, 20 pounds of marijuana with a street value of \$20,000, \$8,000 in cash, 1 sub-machine gun, and 1 revolver.

As another example of continuing post enforcement efforts, OIG, the **Topeka** Police Department, and the Topeka Housing Authority conducted a "Spring Safety Fling" for residents of the Jackson Towers and Polk Plaza elderly housing complexes. The event was scheduled to explain the April 1998 Operation Safe Home arrests of 26 individuals, including 3 residents of the complexes, who were dealing drugs on Housing Authority property. Residents were also asked to provide ideas on ways to make their community a safer and more enjoyable place to live. The overall response was extremely positive, and residents expressed their thanks for the removal of those individuals who were causing fear in their community.

Kentucky

One individual was indicted on federal charges and 17 others were indicted by the state for distributing crack cocaine within the **Lebanon** Housing Authority. The charges are the result of a Lebanon Safe Home Task Force effort initiated December 1997 at the request of the HUD Office of Public Housing following the resignation of the executive director, after he received threats from drug dealers. The threats resulted from the Authority's implementation of the "One Strike and You're Out" policy. In another effort, the Task Force executed a search warrant at a liquor store adjacent to a public housing complex and seized 20 grams of crack cocaine. They also conducted a reverse sting operation at the liquor store and arrested seven individuals attempting to purchase crack cocaine, including an individual who was accompanied by a maintenance employee of the Lebanon Housing Authority. The U.S. Attorney's Office is considering prosecution of the individuals selling drugs from the liquor store. The store has been closed as a result of the operation.

In **Hazard**, the former executive director of the Hazard Housing Authority, Ron Bersaglia, and his wife, Lisa Campbell, who replaced her husband as the executive director, were sentenced for conspiracy to obtain controlled substances and 17 counts of possession of a controlled substance. Bersaglia was sentenced to 4 months home confinement and 3 years probation, and Campbell received 3 months home confinement and 3 years probation. The investigation was conducted by the FBI, OIG, and Kentucky State Police.

Twenty-five individuals, who had sold controlled substances to undercover Officers in **Lexington** public housing developments, were indicted on drug trafficking charges as a result of operations by the Lexington Safe Home Task Force. These individuals were supplying cocaine to dealers, who then sold it in the public housing developments and areas of Section 8 housing. In a second initiative, 14 of 21 individuals suspected of dealing narcotics in publicly funded communities were arrested. In addition, a search warrant was executed, resulting in the seizure of 3 vehicles and \$42,356 in cash. This Task Force consists of the DEA, OIG, USMS, and the Lexington Police Department.

Louisiana

In **New Orleans**, a "Priority City," the Safe Home Task Force, made up of the ATF, DEA, OIG, USMS, and New Orleans Police Department, continued to address violence and drugs in Housing Authority of New Orleans properties with the arrest of 183 individuals and the seizure of 794 grams plus 79 bags of marijuana, 136 grams of crack cocaine, 32 rocks of crack cocaine, 426 grams of cocaine, 16 grams of heroin, 17 weapons, \$10,824 in cash, 4 vehicles, jewelry, ammunition, and drug paraphernalia. In addition to Section 8 areas, these operations took place in the Fischer, St. Bernard, St. Thomas, Desire, Florida, Magnolia, Christopher Homes, C.J. Peete, Iberville, Melpomene, LaFitte, and Calliope public housing complexes. Task Force members were also instrumental in obtaining an indictment of 15 defendants for murder or attempted murder. The defendants are members of the *Seventh Ward Soldiers* gang and have been actively involved with gang activities in and around New Orleans public and assisted housing.

Maryland

In **Hillcrest Heights**, OIG Agents and Officers from the Prince George's County Police Department Narcotics Enforcement Division (NED) concluded

“Operation Clean VII” with 77 arrests, the execution of 3 search warrants, and the seizure of 316 grams of crack cocaine and 4 vehicles. The area of Task Force focus included a high concentration of HUD assisted housing sites. During the operation, OIG Agents and NED Officers made numerous undercover narcotics buys to document 56 arrests, along with reverse buys to reduce the number of individuals entering the area for the sole purpose of purchasing narcotics. These “reverse stings” resulted in 21 arrests and the seizure of 4 vehicles. Aggressive eviction actions will be pursued against HUD assisted residents arrested during the operation.

In **Langley Park** and **Hyattsville**, OIG Agents and Officers from the Prince George’s County Police Department NED conducted a proactive initiative known as “Operation Clean VIII.” This effort targeted street level drug traffickers in and around HUD assisted housing sites. The undercover effort resulted in 225 arrests for drug sales, along with the seizure of 250 grams of crack cocaine, 30 grams of heroin, \$2,000 in cash, 2 vehicles, and 2 handguns. The effort was coordinated with the INS, who has identified over 50 arrested persons for deportation proceedings.

OIG Agents from both the Capital and Mid-Atlantic Districts and Officers from the Annapolis Police Department’s Special Operations Division conducted a long-term, proactive Safe Home initiative targeting drug trafficking activities at a number of public housing complexes in **Annapolis**. Annapolis holds over 90 percent of the public housing inventory within Anne Arundel County. One example of this effort was at the Bowman Courts public housing community, a known site for open air narcotics trafficking, where Agents and Officers observed an individual using his vehicle to distribute illegal narcotics, surrounded the vehicle, and arrested the suspect. Fifteen grams of crack cocaine and 5 grams of heroin were found hidden in the vehicle’s fuse box. About \$300 in cash was also seized. It was later determined through a criminal history check that the individual was currently on federal parole for felony drug and weapons violations. During this 6-month period, there have been a total of 90 arrests and 150 individuals have been banned from public housing based on information developed by the Task Force and shared with Annapolis Housing Authority personnel. Further, the partnership forged between the Annapolis Police Department and Housing Authority leadership had led to the formulation of a community oriented policing program designed to maintain the crime reductions that have been achieved over the last 6 months.

An individual, who was previously arrested by OIG, ATF, and DEA, was found guilty of illegal possession of a firearm. In September 1997, the individual was arrested in front of the Gilmore Homes public housing complex by **Baltimore** City Police after they received a domestic violence complaint. He was part of a known drug organization that distributes heroin in an assisted housing community. He was indicted under the Disarm Program following a review of his criminal history, which included armed robbery and assaulting Police Officers. The Disarm Program carries a 15-year minimum sentence for convicted felons found in possession of a gun. Prior to indictment, it was estimated that the individual was selling about 90 grams of heroin, worth about \$5,400, per hour.

Massachusetts

Ramon Dueno was sentenced following his conviction on charges of felon in possession of a sawed-off shotgun and two other related weapons charges. Dueno received 92 months incarceration on each of the 3 counts, to run concurrently, 3 years supervised release, with a special condition that he cannot go within 500 feet of the Great Brook Valley public housing development in **Worcester**, and a \$300 special assessment. Dueno sold the illegal weapon to an undercover law enforcement officer working in Great Brook Valley. This operation was conducted by OIG and the Worcester Police Department.

Also in **Worcester**, OIG and the Worcester Police Department Vice Unit targeted individuals distributing illegal drugs in the Great Brook Valley public housing development and destroying the quality of life of the residents. During the operations, 27 public housing residents were arrested for violating state narcotics laws. Over \$15,000 of illegal drugs (cocaine, heroin, and marijuana) were seized along with approximately \$7,500 in cash, a shotgun and a rifle. To date, four residents have been evicted; the remaining evictions are pending.

Simultaneously, post enforcement efforts in the area included OIG participation in the Great Brook Valley/Curtis Youth Baseball League Championship game, organized by the Worcester Housing Authority. OIG sponsored a team called "Operation Safe Home," comprised of 15 youths from the Great Brook Valley development. After the game, a trophy presentation was held for all the youths in the league. The Authority's executive director also presented OIG with an appreciation award for sponsoring a team.

In **Boston**, a "Priority City," the Boston Police Department's Area D-4 and City-Wide Drug Control Units and OIG arrested 31 individuals during this reporting period. Seventeen of the 31 were arrested following a 3-month investigation that was initiated after several individuals complained to the Police Department about extensive narcotics trafficking in public housing developments. In total, 4 guns, 12 plastic bags of marijuana, 26 plastic bags of white powder cocaine, and 30 rocks of crack cocaine were confiscated.

In the Mission Hill public housing development, OIG, the City-Wide Drug Unit, Suffolk County District Attorney's Office Special Investigations Unit, Boston Housing Authority Police, and the Massachusetts State Police executed a series of arrest warrants. The warrants were the result of several weeks of undercover narcotics purchases from street level dealers. Those arrested were charged with violating state narcotics laws. OIG is working closely with the Boston Housing Authority to begin the eviction process for all those living in the development.

Continuing post enforcement efforts in **Boston** during this reporting period included participation in the Lenox/Camden public housing development's Unity Day, an event held at many Boston Housing Authority sites. OIG staff conducted a resident survey to gather ideas on possible new resident initiatives. Special Agents also assisted in Project KidCare, an initiative which provides parents with standardized personal safety documents for their children. Unity Day is an annual event, uniting the residents of the development to celebrate their efforts in making their community safe and free from violence. Unity Days were also held at the Alice Taylor, Mary Ellen McCormick, and Bunker Hill public housing developments. In addition to the OIG, participants in these Unity Days

included the Boston Police Department, Boston Housing Authority Police, Massachusetts State Police, Boston Housing Authority Community Initiatives Department, Massachusetts Voter Registration, and Action for Boston Community Development.

The FBI, DEA, OIG, Cambridge and Somerville Police Departments, and the Massachusetts Department of Corrections arrested three individuals on federal arrest warrants. All three had been under investigation for narcotics distribution and for their relationship with the Aryan Brotherhood. During the investigation, Agents purchased about 1 kilo of cocaine. One of those arrested is a confirmed member and one of three leaders of the Aryan Brotherhood nationwide. He lived in a HUD insured development in the Charlestown section of **Boston**, and was actively recruiting residents from the surrounding HUD funded developments for membership in the Brotherhood. He became a member of the Brotherhood after allegedly murdering an inmate while incarcerated in a federal prison in Memphis, TN. After his release, he used apartments in various HUD funded developments for criminal activities, including his relationship with the Sein Fein faction of the Irish Republican Army based in Boston. He was arrested while attempting to steal 6 kilos of cocaine from a parked car.

Mississippi

OIG and the Mississippi State Police Bureau of Narcotics served a search warrant on a HUD insured property in **Yazoo County**, seizing approximately 54 ounces of crack cocaine valued at about \$50,000, approximately \$10,000 in cash, and 2 loaded pistols. Two individuals were arrested on charges of distributing drugs.

The Gulf Coast HIDTA Task Force, which includes DEA, OIG, the **Jackson** Police Department, and Mississippi Bureau of Narcotics, performed a controlled delivery of approximately 50 pounds of cocaine from Jackson, MS, to Atlanta, GA. The operation was the result of a successful interdiction effort in Jackson during which a Section 8 recipient was arrested. HIDTA Agents contacted DEA Agents in Atlanta and proceeded with the controlled delivery. Upon receipt of the drugs in Atlanta, one individual was arrested.

The Task Force also conducted a buy/bust operation that resulted in the arrest of a high ranking individual in an organization that sells drugs and weapons in Jackson public housing developments. Three ounces of crack cocaine and a loaded assault rifle were seized. The individual was armed with a pistol loaded with silver tip hollow point bullets.

Missouri

The Northwest Missouri Safe Home Task Force was very active in **St. Joseph** during this reporting period. In one effort, Task Force members arrested 20 individuals for narcotics distribution in and around the Pleasant Heights public housing community and Oak Ridge Apartments, an assisted housing community. The St. Joseph Housing Authority has issued four eviction letters based on the arrests. The Task Force also seized 4 ounces of methamphetamine with a street value in excess of \$15,000 during a vehicle interdiction. Three individuals were arrested and charged with possession with intent to distribute methamphetamine in and around Pleasant Heights. In another effort in Pleasant Heights, the Task Force arrested a resident for possession of methamphetamine and child abandonment. The resident allegedly abandoned her 5 year-old

daughter and infant son in order to make a methamphetamine purchase. She was arrested when she returned to her residence several hours later. She had just completed a 30-day drug rehabilitation program.

In an effort to stem the flow of methamphetamine in St. Joseph public and assisted housing, the Task Force seized 4 methamphetamine labs and precursor chemicals sufficient to produce 1 pound of methamphetamine with a street value in excess of \$50,000. Six individuals were arrested and charged with possession and conspiracy to manufacture methamphetamine. The chemicals and three of the labs were discovered in the garage of a house adjacent to the Wathena Heights assisted housing community. Another operational methamphetamine lab, chemicals, and 14 grams of methamphetamine were also seized when the Task Force executed a search warrant at a home located within an assisted housing community and within proximity to the Pleasant Heights public housing complex. One individual was arrested and charged with possession and conspiracy to manufacture methamphetamine. This Task Force consists of the OIG, Buchanan County Drug Strike Force, Missouri State Highway Patrol, and the St. Joseph Police Department.

Operation Triple Threat, part of the Organized Crime Drug Enforcement Task Force, of which OIG is a member, conducted operations in **Springfield**. Nineteen individuals, who were participating in a *Mexican Mafia* methamphetamine ring in and around the South Tower, Heritage Tower, Stiwell Colonies, and Madison Tower public housing communities, were arrested.

In **Kansas City**, a “Priority City,” members of the Kansas City Police Department Street Narcotics Unit, the Kansas City Housing Authority Central Patrol Division, and OIG conducted a reverse sting operation at the Chouteau Courts public housing complex. Nine individuals were arrested for attempted purchase and possession of controlled substances. In the same complex, a buy/bust operation resulted in the arrest of four individuals. Three arrests were made for the sale of crack cocaine to an undercover officer and one arrest was made for possession of crack cocaine. Three grams of crack cocaine were seized during the operation.

Several Safe Home operations took place in **St. Louis** during the reporting period. In one operation, OIG, DEA, and the St. Louis Metropolitan Police Department’s Narcotics Unit arrested four individuals during a buy/bust operation. The operation wrapped up a 4-month investigation into a heroin trafficking ring. One of the main runners/couriers used by the supplier was a Section 8 resident living in an apartment near one of several delivery locations. The supplier also resided in an apartment complex situated in an area of Section 8 housing. Approximately 4 ounces of black tar heroin, with a street value of over \$11,000, were recovered by the end of the operation. During the search warrant phase of the operation, 1 ounce of crack cocaine, 1 ounce of marijuana, 1 weapon, and approximately \$20,000 in cash were recovered, along with several grams of black tar heroin. Federal indictments are pending.

Also in **St. Louis**, OIG Agents attended the third annual C.A.R.E. (Childrens Assistance and Resource Event) Fair held at the Blumeyer public housing

development. The Fair was attended by about 150 children and 100 adults. The Blumeyer development has 1,000 units; however, there is currently only 30 percent occupancy due to construction. Agents provided toy bags to the children and Operation Safe Home brochures to the adults. The C.A.R.E. Fair is sponsored and organized by St. Louis University.

Nevada The **Las Vegas** Gang Task Force executed 15 federal search warrants and arrested 18 members of the *East Side Playboys* gang for trafficking in guns and narcotics in and around public housing sites in Las Vegas and North Las Vegas. Their main distribution site was next to Stewart Plaza Apartments, a public housing complex. Four search warrants were executed at this distribution site, during which time 1-1/2 pounds of methamphetamine, 1/2 pound of cocaine, 5 guns and 3 vehicles were seized. Members of this Task Force who participated in the operation include the FBI, IRS Criminal Investigation Division, DEA, ATF, USMS, INS, OIG, Las Vegas Metropolitan Police Department, and the Nevada Division of Investigation.

During a subsequent operation in **Las Vegas**, a state search warrant was served at a single family residence and four individuals were arrested for possession of cocaine. This house is adjacent to the Centennial Park Arms Apartments, a Section 8 development. The individuals arrested were known to be selling cocaine to residents of the Section 8 development. Prior to the execution of the warrant, 23 people who live at Centennial Park Arms were seen entering the house. Nearly 17 grams of rock cocaine, a small amount of marijuana, \$967 in cash, a scale and packaging material were seized. This Safe Home initiative was conducted by the North Las Vegas Police Department and OIG.

New Hampshire In **Manchester**, 22 federal arrest warrants were executed as part of "Operation Streetsweeper 1998." All 22 individuals, including a Section 8 resident, have been charged with drug violations. Operation Streetsweeper is an effort aimed at reducing crack cocaine trafficking and violent crime in areas that include publicly funded residential communities. It is made up of the DEA, ATF, OIG, USMS, Manchester Police Department, New Hampshire State Police, and Hillsborough County Sheriff's Office.

New Jersey Eighty-seven people were arrested during this reporting period in **Camden**. In one effort, the Camden County Prosecutor's Office, Camden City Police Department, New Jersey State Police, and OIG conducted a "reverse operation" adjacent to the McGuire Gardens public housing development. In another effort, two state search warrants were executed at McGuire Gardens by the DEA, OIG, Camden County Prosecutor's Office, and Camden City Police Department. Over 4,450 bags used to package crack cocaine, 3 dime bags of marijuana, 128 bags containing crack cocaine, an additional 5 grams of crack cocaine recovered from a toilet, \$4,308 in cash, 2 boxes of bullets, and 1 bullet-proof vest were confiscated.

In the **Asbury Park** public housing community and the surrounding area, 71 people were arrested. One operation was part of an extensive federal, county,

and local investigation into cocaine and heroin trafficking by alleged gang members. These arrests, resulting from both federal indictments and state charges, involved several members of the *Five Percenters* gang. During the investigation, undercover Agents purchased over 900 grams of crack cocaine, 640 grams of powder cocaine, and 1 assault firearm. In addition, about 2,700 grams of heroin were seized. The arrests were the culmination of a year-long joint investigation by DEA, ATF, OIG, the U.S. Attorney's Office, and the Monmouth County Prosecutor's Office Narcotics Strike Force.

Two individuals were arrested for distributing heroin in and near Asbury Park public housing complexes. The arrests are part of an investigation by the DEA, OIG, Monmouth County Prosecutor's Office, and the Neptune and Asbury Park Police Departments into heroin distribution that reaches from the Bronx, NY, to the **Asbury Park** and **Neptune**, NJ areas. The two were arrested following a motor vehicle stop. A search of the vehicle revealed over 5 ounces of heroin, worth about \$40,000, hidden in a secret compartment in the dashboard, which was located with the help of the Neptune Police Department K-9 Unit. Both individuals arrested were charged with possession of heroin and possession with intent to distribute. Bail was set by the New Jersey State Superior Court at \$250,000 for each defendant.

OIG's post enforcement effort led to a ground breaking ceremony at the **Asbury Park** Village public housing complex, the city's first public housing development, opened in 1941, which in recent years has been plagued by violent crime, illegal narcotics activity, and deplorable housing conditions. Although some repairs have recently been made, these attempts could not overcome years of damage. About \$1.1 million in HUD funds have been awarded for repairs including storm sewers, roofs, gutters, sidewalks, parking areas, and a complete regrading to improve drainage.

Safe Home post enforcement efforts are being developed in conjunction with the HUD funded renovations to enhance the quality of life for residents and to bring this complex back to a level that will be conducive to family living. In addition, a computer training facility, with 24 computers, an instructor's computer terminal, and access to the Internet, is near completion. In addition to HUD Drug Elimination Program funding, the OIG has been instrumental in obtaining computers from the U.S. Navy and Lucent Company, along with corporate funding, to make the training center a reality.

New Mexico

The Southern New Mexico Task Force in **Las Cruces** was active during this reporting period. Task Force members executed a search warrant on a residence in the Valley Drive public housing development. Both residents were charged with bringing aliens into the United States, transporting aliens, harboring aliens, and aiding and abetting. The Las Cruces Housing Authority has begun eviction proceedings against the leaseholder of the residence. Twelve illegal aliens will be deported back to Mexico; no formal charges are being filed against them. The Task Force also arrested an individual for possession of cocaine with intent to traffick. The individual previously sold drugs in a public housing complex to an undercover Agent. The total street value of the cocaine seized at the time of the arrest is estimated at \$29,920. This Task Force is composed of the ATF, OIG,

Border Patrol Alien Smuggling Unit, Las Cruces Police Department, and the Dona Ana County Sheriff's Office.

New York

In **New York City**, over 1,000 law enforcement officers from the FBI, OIG, and New York City Police Department (NYPD), participating in one of the largest arrest operations since the Prohibition Era, executed over 100 arrest warrants on indicted members of the *Almighty Latin King and Queen Nation* (ALKQN) gang. The drug related violence of this gang has victimized residents of numerous New York City Housing Authority properties. Following a 19-month undercover operation, the investigation resulted in the infiltration of the ALKQN in Manhattan, the Bronx, Brooklyn and Staten Island. The ALKQN is the oldest, violent Latino gang, tracing its origins to Chicago, IL, in 1940, when it was founded in that state's correctional system. It has spread throughout the United States, and is allegedly one of the most violent gangs plaguing this country.

Over 123 ALKQN members and 7 associates were taken into custody, and 49 firearms, including assault weapons such as AK-47s, Uzis, and Mach-10s, as well as rifles, shotguns, pistols and revolvers, narcotics worth over \$230,000, including 2 kilos of heroin, 2 kilos of crack cocaine, and 41 grams of marijuana, 9 cloned cellular telephones, 3 bullet-proof vests, 1 police scanner, several knives, box cutters, and brass knuckles, and ALKQN literature, shirts, membership cards and lists of members were confiscated. The entire leadership structure of the ALKQN, the so-called "Supreme Team of the Nation," was arrested and faces an array of charges including murder, assault, narcotics and firearms trafficking, rape, conspiracy, extortion, kidnapping, intimidation of witnesses, and continuing a criminal enterprise.

The investigation included a coordinated effort with law enforcement agencies in New York, New Jersey, Connecticut, Massachusetts, and Pennsylvania, and has netted an additional 140 arrests of *Latin King* members and associates over the last 19 months. Following the announcement of the initiative, the NYPD Commissioner and the Assistant FBI Director thanked and congratulated each of the participating agencies for their roles in the successful operation.

Efforts by the **Staten Island** Narcotics (SIN) Task Force continued during this reporting period. For example, OIG assisted in the organization of a multi-phase enforcement operation targeting violent crime, fugitives and quality of life crimes in and around the Stapleton public housing development. Forty-three NYPD Officers and Detectives joined OIG Agents and the New York City Sheriff's Office in the operation. Nine fugitives were apprehended, 5 drug suspects were arrested, and 25 summonses were issued.

In another multi-phase operation in and around the Richmond Terrace public housing development, 20 bench warrants were executed and 4 fugitives were apprehended; checkpoints were established around the development where 5 vehicles were seized and 1 individual was arrested; and subsequent patrols throughout the development's high-rises resulted in the issuance of 56 summonses and the arrest of 1 person for possession of drugs. SIN Initiative operations at the Park Hill Houses public housing development also resulted in 5 misdemeanor arrests, the execution of 31 bench warrants, the apprehension of 1 fugitive, the issuance of 19 summonses, and the seizure of 4 vehicles.

Operation Safe Home pamphlets and NYPD Crimestoppers pamphlets were distributed to residents during all of these operations. The SIN Task Force, initiated by the OIG, is comprised of NYPD's Organized Crime Bureau, 120th Precinct, Housing Police Bureau, DEA, and USSS.

The **Albany** Operation Safe Home Task Force arrested 40 individuals, served 7 search warrants, and seized 273 grams of cocaine, 22 grams of heroin, and 98 grams of marijuana, all valued at over \$18,600, 9 weapons, and over \$10,000 in cash. The operation has targeted two major drug trafficking areas with high concentrations of public and assisted housing. The Task Force is made up of Albany Sheriff's Deputies, Albany City Police Officers, and OIG Agents.

Following the dismantling of several criminal narcotics operations in public housing communities, the HIDTA Task Force sponsored a Drug Awareness Day, concentrating on the teenagers and children of the developments and the surrounding communities in **New York City**. The day consisted of music, activities, and food, and the distribution of t-shirts, drug prevention coloring books, and literature. In addition to the DEA, OIG, NYPD, New York City Housing Authority, and neighborhood community center representatives, several neighborhood sports figures and prominent public figures were also present. OIG and the New York City Housing Authority implemented resident initiatives, focusing on prevention and intervention strategies that were put in place after a number of arrests were made during the covert phase of this operation.

North Carolina

Fifty-seven people were arrested during this reporting period by the **High Point** Task Force. Cocaine and marijuana were seized in one buy/bust operation conducted in public housing developments. Those arrested were charged with sale/possession of narcotics and obstruction of justice. In another operation, the Task Force seized \$200 worth of marijuana and \$400 worth of crack cocaine that were being sold in public housing developments. The individuals arrested were charged with possession of narcotics, delivery, attempting to deliver, possession with intent to deliver narcotics, conspiracy to deliver, loitering, delaying and obstructing justice, and various probation violations. This Task Force is made up of the OIG, High Point Police Department, North Carolina Probation, and the Guilford County Sheriff's Department.

OIG continued its partnership with the High Point Police Department (HPPD) and High Point Housing Authority (HPHA) in promoting Safe Home post enforcement activities. The OIG participated in the unveiling of a new Community Activity Response bus that is a fully operational HPPD sub-station. This new sub-station is parked in the middle of the Macedonia area of High Point, which includes public and HUD insured housing. Studies have shown the Macedonia area to be one of the most violent in High Point. In attendance for the unveiling were the OIG, HPPD, HPHA, Guilford County Sheriff's Office, North Carolina State Highway Patrol, North Carolina Division of Corrections, local residents, High Point City Council and City Hall members, High Point Fire Department, and Guilford County Probation/Parole. OIG will be coordinating closely with HPPD and HPHA regarding future post enforcement activities.

Ohio

In **Warren**, the OIG, Warren Police Department, and Trumbull County Sheriff's Department Narcotics Section executed 105 state indictments and arrest warrants for drug possession, trafficking, and other felony charges. The arrests took place in the Trumbull Homes, Fairview Gardens, Highland Terrace, and other Section 8 properties. An employee of the Trumbull Metropolitan Housing Authority was also arrested on state drug trafficking charges. During the operation, a loaded handgun, cocaine powder, and crack cocaine were confiscated.

The DEA Task Force was active this period in **Columbus, Gahana, Newark, and Zanesville**. In Columbus, two search warrants were executed after an individual offered to sell 30 pounds of marijuana to an undercover OIG Agent. The suspect supplies drugs to a number of public and assisted housing complexes throughout Columbus. A total of 150 pounds of marijuana and various documents were confiscated. In Gahana, an individual offered to sell 9 ounces of crack cocaine to an undercover OIG Agent at Towne Court Apartments, an assisted housing development. Following a search, 12 ounces of crack cocaine, \$3,000 in cash, and 4 vehicles were confiscated. In Newark and Zanesville, the Task Force arrested one suspect on federal charges of possession with intent to distribute cocaine and firearms violations. After offering to buy 3 kilos of cocaine and firearms from an undercover Agent, the individual, who supplies drugs to a number of public and assisted housing complexes, was arrested. About \$82,000 in cash and 1 handgun were confiscated. This Task Force is made up of the DEA, OIG, and the Columbus Police Department Narcotics Unit.

Also in **Columbus**, the OIG, ATF, and Columbus Narcotics Unit arrested a fugitive *GI Boys* gang member on federal drug charges for distributing narcotics in public housing. The individual was arrested at a bus station and was found with 10 pipe bombs in his possession. Two of the bombs were detonated by the Columbus Bomb Squad. Two state search warrants were then executed at the individual's residence, resulting in the seizure of 1 ounce of cocaine powder, nearly 2 kilos of marijuana, 1 loaded handgun, 2 shotguns, and drug documents.

In **Ironton**, the Ohio Bureau of Criminal Identification, Ironton Police Department, OIG, and Lawrence County Drug Task Force executed two state search warrants and arrested nine individuals for aggravated drug trafficking. Four of the suspects arrested were alleged members of the *Detroit Boys* gang that allegedly transported cocaine from Detroit, MI, to Ironton on a weekly basis to sell in the River Hills public housing development. Crack cocaine and a handgun were confiscated.

Also in Ironton, as a result of a year-long undercover operation by the DEA, HUD and Agriculture OIGs, USMS, and the Ohio Bureau of Criminal Identification and Investigation, six individuals, charged in March in connection with a cocaine trafficking operation in and around the River Hills public housing complex, pled guilty in U.S. District Court. The six are part of a group of 37 individuals indicted on federal and state charges in connection with an operation in which food stamps were used to purchase drugs. Two of the six have received life sentences.

Twenty-one individuals, who had been indicted on charges of state aggravated drug trafficking, were arrested in **Fosteria** by OIG, the Netrich Drug Task Force, Ohio Bureau of Criminal Investigation, and Fosteria Police Department. The individuals allegedly sold crack cocaine in the Foster Homes assisted housing complex.

Oregon

The ATF, OIG, and **Hillsboro** Police Department arrested an individual who was wanted for the attempted murder of a rival gang member the previous day. The individual and his accomplices are members of the *West Side 18th Street* (or *SUR Trece*) gang and were retaliating against a *Hillside 12th Street LAP Lokes* gang member accused of a previous drive-by shooting. The victim was shot in the face at less than 25 feet, but sustained only minor injuries. The sawed-off shotgun used in the shooting has not been recovered and it is speculated that the shooter has fled to California. A second individual was later arrested and the vehicle used in the incident was impounded. Law enforcement involved in this operation focused the initiative in HUD funded housing complexes to reduce guns, illegal narcotics sales, and gang activity.

Pennsylvania

Pittsburgh saw some significant Operation Safe Home results during this reporting period. Five individuals were convicted for their role in a drug distribution network within Pittsburgh public housing communities. They received sentences ranging from 11-1/2 months to 6 years in prison and over \$5,000 in fines. One person was sentenced to a juvenile facility, one family was evicted from Section 8 housing, and three individuals were evicted from public housing. Charges included possession and delivery of controlled substances, possession of drug paraphernalia and marijuana, and criminal conspiracy. Five other individuals are still awaiting trial on charges associated with this investigation, four of whom are public housing residents who also have eviction actions pending against them.

City of Pittsburgh Housing Authority Police Officers and OIG also conducted several other operations in public housing communities. They arrested 33 people, 1 of whom had an outstanding arrest warrant for aggravated assault and terrorist threats, and seized 55 grams plus 1 ounce of crack cocaine, 30 grams of powder cocaine, 17 ounces of marijuana, 25 \$30 balloons of heroin, a loaded semi-automatic weapon, 120 rounds of ammunition, \$8,554 in cash, a police scanner, a scale, and drug packaging materials.

Also in **Pittsburgh**, an OIG led Operation Safe Home initiative, undertaken to combat violent crime and drug activity at the Sterrett-Collier Apartments, succeeded in significantly reducing criminal activity on the property. OIG was initially advised of problems at Sterrett-Collier in late December 1997 by the Pittsburgh Police, who asked for assistance in combatting a violent group of *Crips* gang members who had controlled the property, and the area adjoining it, for over 5 years. Statistically, this property and the surrounding area have been the most violence and drug plagued areas within the City of Pittsburgh. In addition to bringing law enforcement resources to bear on these crimes, OIG immediately convened a meeting among the Pittsburgh Police, owner representatives, the property manager, and HUD Office of Multifamily Housing representatives, wherein management and administrative solutions were

discussed. As a result of these efforts, crime statistics compiled for the period April-July 1998 show a reduction of over 50 percent in the number of calls for police assistance, as well as arrests for violent crimes and drug offenses. As of August 18, 30 vacant units had been permanently secured, and 11 residents had been evicted.

OIG Agents, **Pittsburgh** Housing Authority Police Officers, and HUD Community Builders conducted "Operation School Bag" at St. Clair Village. "Operation School Bag" is premised on the belief that education is a critical component in breaking the cycle of drugs and violence. Toward that end, Safe Home Task Force members and St. Clair Village Citizen's Council volunteers distributed school supplies to over 225 children. OIG Agents and Authority Police Officers also distributed information about Operation Safe Home to parents and children, and answered Safe Home oriented questions. As a result of Safe Home law enforcement efforts, the St. Clair Village Citizen's Council has agreed to start a resident patrol. This development has been the site of significant interdiction by the Safe Home Task Force, which includes OIG, Authority Police, and Allegheny County Police.

In **Philadelphia**, a "Priority City," the Philadelphia South Narcotics Unit, the DEA Task Force, and OIG served state search warrants at three separate houses located near the Martin Luther King public housing development. Ten individuals were arrested for selling and trafficking controlled substances. In addition, crack cocaine with a street value of over \$1,000 was seized. Coordination with the local District Attorney's Office has begun relative to the possible seizure of these three properties.

Also in **Philadelphia**, Jose Orama, arrested by DEA Task Force members in the spring of 1997 for trafficking 1 kilogram of cocaine outside the Southwark public housing development, was sentenced to 36 months in prison. This Task Force is made up of the DEA, OIG, Philadelphia Police Department, and Philadelphia Housing Authority Police.

In June of this year, OIG and the **Philadelphia** Police Department, in conjunction with the FBI, DEA, and INS, initiated "Operation Sunrise," aimed at cleaning up the East Division of Philadelphia. This area has been described as the worst violent crime and drug trafficking section of the city. The area includes numerous scattered sites, Section 8, and assisted housing sites. To date, over 180 narcotics related arrests have been made, and are being reviewed to determine scattered site, Section 8, and assisted housing involvement. Eviction and/or financial assistance termination will then be initiated. Additionally, over 150 vacant properties have been boarded up, 500 abandoned vehicles have been towed, and dozens of unsafe vacant lots used by drug dealers and prostitutes have been fenced off. The Philadelphia Streets Department has also increased street cleaning and graffiti removal.

Puerto Rico

In **San Juan**, Luis Rosario-Rodriguez and Edwin Rosario-Rodriguez were sentenced to life imprisonment on 2 counts and 10 years on another count, to be served consecutively, for possession with intent to distribute heroin and cocaine, continuing criminal enterprise, and intentional killing in furtherance of a

controlled substance conspiracy. The brothers were violent enforcers of the *Israel Santiago-Lugo* gang, a/k/a “*Doctor*,” a several million dollar criminal enterprise that terrorized public housing developments in the northeast region of Puerto Rico. They also admitted to their involvement with Police Officers who provided protection and support to the gang with kidnappings and murders of rival members. This organization was responsible for at least 20 known drug related murders for which the U.S. Attorney authorized the death penalty. The successful criminal prosecution of this organization has resulted in the conviction of 45 defendants, with the forfeiture of over \$4 million, and 6 additional life sentences, for a total of 8 imposed by District Court Judges. Trial for five other members of the organization on narcotics violations and drug related murders is pending. This investigation was conducted by the ATF, DEA, FBI, and OIG.

Rhode Island

A Section 8 resident in **Lincoln** pled guilty to 1 count of distribution of controlled substances to a minor and 3 counts of delivery of controlled substances, and was sentenced to 5 years in prison. The resident voluntarily vacated her Section 8 apartment prior to the court’s action. She had been arrested in January 1998 during a joint Safe Home effort by the OIG and the Lincoln Police Department’s Detective Bureau.

OIG participated in **Woonsocket**’s annual Family Day, sponsored by the Woonsocket Housing Authority and the Woonsocket Police Department. The event was held at Dunn Park, adjacent to the Veteran’s Memorial family public housing development. Residents from the Authority’s other family development, known as Morin Heights, also attended. Families were told that the agencies/organizations participating in the event are there to help provide a safe, sanitary and violence-free environment in which to reside. These agencies include the Girl Scouts of America, the Boy Scouts of America, the local housing authority and police department, OIG, Voter Registration, and KidCare, to name a few.

South Carolina

Following a Safe Home initiative in **Spartanburg** in January 1998 that resulted in the execution of 80 federal arrest warrants, 59 defendants have pled guilty and 20 have been sentenced to a total of over 78 years in prison and 94 years supervised release for possession and/or distribution of crack cocaine within 1,000 feet of public housing. This operation was conducted by the Organized Crime Drug Enforcement Task Force made up of the FBI, ATF, OIG, and Spartanburg Public Safety Department.

To initiate the post enforcement phase of Safe Home operations, the **Spartanburg** Police Department, Spartanburg Housing Authority, and OIG sponsored a Safe Home Festival for Authority residents. The Festival was attended by over 500 residents. Activities included games, music, food, demonstrations, child safety seminars, drug awareness and reduction education activities, and crime prevention information. In addition, resident survey forms were distributed to get feedback on the operation, the safety of Authority developments, and input on other concerns. OIG presented Authority and Police Department officials with awards for their participation in Safe Home operations.

Tennessee

The 24th and 27th Judicial Drug Task Forces carried out several Safe Home operations throughout the state. In **Camden** and **Trezevan**, search warrants were executed at the private residences of individuals identified as selling drugs to residents in Section 8 and HUD subsidized complexes. Thirty-six grams of methamphetamine, 5 pounds of marijuana, \$4,000 in cash, 3 rifles, 5 handguns, and ammunition were recovered. In **Paris** and **Henry**, a state grand jury returned indictments against 28 defendants for possession and sale of controlled substances. Task Force efforts were concentrated at two HUD subsidized Section 8 apartment complexes, in a neighborhood six blocks from the Vernon Place public housing development.

The Task Forces executed a search warrant at a private residence in **Huntington**. The owner had been previously identified as the source of methamphetamine being sold to individuals in HUD insured and public housing developments. The search resulted in the seizure of 116 grams of methamphetamine with a street value of \$4,640, 4 grams of marijuana, 3 sticks of dynamite with blasting caps, 1 handgun, 1 revolver, 1 sawed-off shotgun, drug paraphernalia, and a vehicle. An arrest warrant was issued for the owner of the property.

These Task Forces are comprised of the OIG, State Attorney General's Office, Benton County, Carroll County, and Henry County Sheriff's Offices, Tennessee Highway Patrol, and the Paris, Union City, and McKenzie Police Departments.

In **Memphis**, a "Priority City," operations resulted in the sentencing of 2 individuals to a total of 28 years in prison and 5 years probation, 3 indictments, 5 arrests, and the seizure of \$2,514 in cash, 101 grams of crack cocaine, 22 grams of powder cocaine, 234 grams of cocaine, 280 grams of methamphetamine, 826 grams of marijuana, 3 vehicles, and 3 weapons. Undercover buys and "stops and searches" were some of the methods used to target those selling drugs in public and assisted housing. The three indictments resulted from a 2-1/2 year undercover operation and included a Memphis Housing Authority maintenance employee who was charged with 1 count of distributing more than 5 grams of cocaine base (crack); a 2-count indictment charging an individual with distributing more than 5 grams of crack within the Cleaborn Homes public housing development and aiding and abetting; and a 4-count indictment charging an individual with distributing more than 50 grams of crack within the Foote Homes public housing development. This operation involved the Shelby County Sheriff's Office, Memphis Police Department, IRS Criminal Investigation Division, USPS, FBI, and OIG, with additional assistance from the DEA Task Force, Union City Police Department, 24th and 27th Judicial District Drug Task Forces, and the Dyersburg and Paris Police Departments.

The **Memphis** "Priority City" Safe Home post enforcement phase was initiated with the opening of a Police Sub-Station in the Hawkins Mill public housing development. The Memphis Housing Authority donated the space to open the Police Station, which will be manned by Memphis Police Officers. Over 1,500 residents of Hawkins Mill attended the opening, participated in activities and toured the Sub-Station.

The Tranquillity Apartments and Sunrise Apartments, FHA insured and HUD subsidized complexes, respectively, were sites of Safe Home operations that resulted in the indictment and arrest of 31 individuals involved in the sale of narcotics. The **Benton County** Sheriff's Office sponsored resident cook-outs at these complexes, in conjunction with OIG, and initiated increased marked patrol units in the complexes after the individuals were arrested. The Sheriff advised OIG that within 1 week of the increased patrols, residents' attitudes and willingness to cooperate with law enforcement changed dramatically.

Texas

A state jury in **Dallas** found Elloyd Johnson guilty of delivery of a controlled substance and sentenced him to 99 years in prison. Johnson had at least 4 prior drug related felony convictions, including 1 involving his Section 8 residence, and under the habitual offender statute, faced a first degree sentence of not more than 99 years or less than 5 years imprisonment. This action resulted from operations by the EGGHOUSE (Eliminate Gangs and Guns from Public Housing) Task Force, made up of the ATF, OIG, and Dallas Police Department. As a result of another Task Force operation, Keith Lamon Jackson was sentenced to 126 months in prison and 5 years probation for distributing cocaine base and aiding and abetting.

Task Force operations also resulted in the arrest on murder and attempted murder charges of an individual who had been evicted from the Town Park public housing development in November 1994. In April 1997, the same evicted person was arrested in Dallas for possession of crack cocaine and heroin at an address known as a crack house, which is also a Section 8 unit. The former evicted resident pled guilty and was placed on 5 years probation.

The **San Antonio** Task Force, consisting of OIG Agents and the San Antonio Police Department, also saw some significant results this period. In one case, a search warrant was executed at a Section 8 residence that was being used as a stash house to supply drugs to neighboring public housing developments. In another case, a search warrant executed at the Alazan/Apache Courts public housing development resulted in the arrest of 3 residents and the seizure of 4 grams of marijuana and 3 grams of cocaine. Eviction actions are pending with the San Antonio Housing Authority. In total, during this reporting period, 28 people were arrested and 3 weapons, \$7,841 in cash, 639 grams of powder cocaine, 491 grams of cocaine, 1,009 grams of marijuana, and over 191 grams of heroin were confiscated.

In **Fort Worth**, Ardelbert Mitchell, who was previously arrested on federal drug charges, was sentenced to 168 months in jail and 8 years supervision upon release, and ordered to participate in a drug treatment program and to pay a \$100 special assessment. Mitchell pled guilty in April 1998 to one count of distribution of a controlled substance near a public housing development. In addition, James Cushon Holmes was sentenced to 71 months in federal prison. Holmes pled guilty in April to distributing a controlled substance within 1,000 feet of a public housing development, Butler Place, of which he is a former resident. Holmes was featured in a local newspaper write-up in August 1997 about Butler Place and was co-founder of a Butler Place activist group called the Men of Butler, whose mission, according to Holmes, was to help children

within Butler Place resist drugs and gangs. These sentencings were the result of operations by the Fort Worth Safe Home Task Force, made up of the ATF, OIG, and Fort Worth Police Department.

A post enforcement operation at the Ripley Arnold public housing development in **Fort Worth** was sponsored by the Fort Worth Housing Authority, Fort Worth Police Department, OIG, the Community Alternative Program, the Ripley Arnold Resident Association, and the Citizens on Patrol Organization. A picnic followed this community mobilization project. This is one of several initiatives aimed bringing agencies together to work within public housing developments to rid them of violent crime and gang activity.

Utah Three individuals were arrested in **Salt Lake City** after Safe Home Task Force members executed a search warrant in a public housing/Section 8 neighborhood. A cooperating witness had provided information about a large scale methamphetamine lab/motorcycle fencing operation that was impacting the neighborhood. The individuals were charged with possession of meth lab equipment and chemicals used to make methamphetamine. Marijuana, two semi-automatic pistols and drug paraphernalia were confiscated. The DEA estimated that this lab operation had enough chemical products to make 3 pounds of methamphetamine. The Safe Home Task Force includes OIG, DEA, and the Salt Lake County Sheriff's Department.

Virginia The "Operation Southwind" Task Force in **Manassas**, consisting of OIG Agents and Vice/Narcotics Detectives from the City of Manassas and Prince William County Police Departments, was responsible for 9 arrests and the seizure of \$600 worth of crack cocaine and heroin during the past 6 months. The Task Force focused on major street level drug traffickers who were operating in and around HUD Section 8 units in the community of Georgetown South. This initiative was created in response to citizen complaints and a history of open air drug markets that operated in the area. OIG Agents, working undercover, secured evidence for the arrest warrants by documenting numerous drug purchases. Seven of nine people arrested have already pled guilty. One defendant, who sold drugs to OIG Agents, was sentenced to 1 year in a state prison and 4 years probation. As part of its post enforcement effort, the OIG worked closely with the Prince William County Housing Authority to have trespassing notices issued to seven individuals who used the community as a location to sell drugs.

In **Alexandria**, the Circuit Court indicted a street level drug dealer who was operating in and around a public housing complex. This indictment stemmed from a joint operation by OIG and the Alexandria Police Department Street Crimes/Vice Unit. An OIG Agent, working in an undercover capacity, made a direct drug buy from the dealer. One individual was arrested and 2 pounds of marijuana were confiscated as a result of another operation by OIG and the Alexandria Police Department. The arrest and seizure followed a street level enforcement operation targeting assisted housing developments.

Washington

Continuing joint efforts in **Seattle** public and assisted housing communities resulted in the arrest of 29 people and the seizure of 1 weapon, \$122 in cash, 4 grams of crack cocaine, 21 grams of rock cocaine, and 15 grams of marijuana. This followed neighborhood patrols, knock and talk operations, and a sting operation. Most of the operations were conducted by the Seattle Police Department and OIG. In one incident, a HUD assisted resident was arrested for possession of cocaine and drug paraphernalia. Patrols and reverse buy/bust operations also resulted in the arrest of eight individuals, one of whom was a Section 8 resident. Four of the arrests were for the purchase of narcotics, one was for an outstanding warrant, and three were for criminal trespass (individuals previously warned by Seattle Police to stay away from Housing Authority property). The OIG is pursuing the eviction of those individuals arrested who are public or assisted housing residents.

The OIG assisted DEA and the **Tacoma** Police Department through undercover operations that resulted in the arrest of two individuals, one of whom was a Mexican National, at a HUD owned property. Nearly 13 pounds of black tar heroin and \$20,000 in cash were seized. It is estimated that the heroin had a street value of up to \$3 million. It is also believed that this was the largest black tar heroin distribution ring to operate in Western Washington.

A Safe Home initiative in a HUD assisted housing area of **South Tacoma** that began in June 1998 has resulted in the arrest of 19 individuals and the eviction of 33. The arrests stemmed from the initiation of a “Zero Tolerance Zone” within the targeted area. Individuals were stopped for traffic violations which, in two instances, resulted in arrests for illegal drug possession and unlawful possession of a pistol. This operation was a joint effort by OIG, the Tacoma Police Department, and area owners and managers.

As part of our post enforcement efforts, OIG participated in “National Night Out Against Crime” events. One event was in coordination with the **Seattle** Police Department, local housing authority staff and managers, and residents of two Seattle public housing communities; another event was in partnership with the **Tacoma-Pierce County** Health Department and the Pierce County Housing Authority. In Seattle, about 350 residents attended 2 celebrations. A walk-through of some of the “drug areas” was conducted at one community. The residents who participated were extremely positive about the walk, chanting such phrases as “No More Drugs, Kids Need Hugs” and “No More Dope, Kids Need Hope.” Police Department Officers have noted that since “National Night Out” began, residents have become much more cooperative in reporting suspicious activities, and have commented that they realize that OIG and the Seattle Police are concerned about the drug problems in their communities, and they welcome the help.

The effort in Tacoma included coordination with managers of apartment complexes in an area that houses over 2,000 residents. Residents, about 20 percent of whom receive HUD assistance, came out to take a stand against crime, drugs, and gang violence. Several expressed an interest in having and participating in similar events throughout the year.

Witness Relocation

The OIG has participated in several DOJ-sponsored meetings on the subject of witness relocation and protection, in an effort to expand all the various services provided to/for witnesses by numerous federal agencies. The goal of DOJ's effort is to provide greater services to state and local law enforcement.

During this reporting period, the OIG relocated 112 witnesses to violent crimes. Since inception of Operation Safe Home, we have relocated 546 witnesses and their families.

Fraud in Public and Indian Housing Administration

Since the initiation of Operation Safe Home in 1994, OIG has focused significant resources and priorities on detecting and prosecuting fraud in the administration of HUD's Public Housing Programs.

The following reflects the work that was accomplished relating to fraud in Public Housing Program administration during this reporting period and since the inception of Operation Safe Home:

Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Indictments	6	127
Plea Agreements/Convictions	9	112
Sentences Imposed		
Jail	54 months	1,116 months
Probation	379 months	2,673 months
Fines/Restitution	\$161,471	\$2,364,975

California

Arnold Anton Crawford, a former Section 8 supervisor at the Indio Housing Authority in **Los Angeles**, was sentenced to 365 days imprisonment, 5 years supervised probation, and ordered to pay \$9,498 in restitution to the Riverside Housing Authority. Crawford misappropriated public funds when he sold Section 8 certificates and issued Housing Authority checks for his own benefit.

District of Columbia

Following a joint OIG audit and investigation, Olga Busey, a former **District of Columbia** Housing Authority property manager, pled guilty to two counts of theft of government funds. Busey stole and converted for her own use nearly \$8,000 in rental payments from elderly residents who lived in the Greenleaf Seniors Dwelling public housing complex.

Florida

The former executive director (ED) of the **Walton County** Housing Authority was indicted on 22 counts of mail fraud. From 1988 to 1997, the ED

embezzled over \$620,000 by creating financial transactions to 33 fictitious tenants, landlords, and Section 8 rental properties. The former ED also caused Section 8 payments to go to landlords, including members of her family, who were not due the payments. The ED used the funds for personal expenses and to pay college tuition for family members. This investigation was conducted as a joint effort by the OIG's Offices of Investigation and Audit.

Indiana

An FBI/OIG investigation led to the indictment and arrest of an individual on one count of wire fraud and two counts of false statements. The individual presented a counterfeit performance bond in response to contractual requirements for approximately \$2.2 million for construction work contracted by the **Michigan City** Housing Authority. After termination of the contract due to inability of the contractor to meet construction deadlines, the Housing Authority requested the bonding company to fund completion of the project. The bonding company determined that the individual was not authorized to execute or issue bonds on behalf of the company and that the bond was fraudulent.

Kentucky

Jack Douglas Bray, former executive director of the **Beattyville** Housing Authority, was sentenced to 6 months home confinement, 5 years probation and ordered to pay over \$25,000 in restitution. Bray pled guilty to embezzling over \$25,000 in rental receipts from the Housing Authority and using the funds to pay personal expenses. All funds taken were recovered through a claim against the Housing Authority's bonding company. This was an OIG and Lee County Sheriff's Department investigation.

Maryland

Dorothy Budd, former site manager of the multifamily insured Poppleton Cooperative in **Baltimore**, was sentenced to 5 months incarceration, 5 months home detention with an electronic monitor, and 2 years probation for her role in receiving bribes from prospective residents in exchange for moving them to the top of the waiting list. On two separate occasions, Budd solicited \$1,500 each in bribes from an informant and an undercover Agent. Following the execution of a search warrant, Budd admitted receiving \$22,500 in bribes from 15 different residents over a 3-year period. This was a joint investigation by the FBI and OIG.

Ohio

Based on the results of an Operation Safe Home probe, the OIG audited the Warren Metropolitan Housing Authority in **Lebanon** and found that the Authority's internal controls were weak and offered the opportunity for employees to misuse or divert Authority funds. However, we did not find any instances where employees diverted funds.

The audit disclosed that the executive director and the board of commissioners did not operate the Authority according to program requirements. Units had health and safety violations, contracting requirements were not followed, controls over payroll were inadequate, insurance procedures needed improvement, an acceptable cost allocation plan was lacking, and personnel practices were not adequate. In addition, the Authority inappropriately paid almost \$93,000 for legal and unsupported expenses.

The audit recommended that the Director of the Public Housing Hub in Cleveland, in coordination with the Ohio State Office's Director of Community Planning and Development, assure that the Authority implements controls to correct the weaknesses cited in the report. (Report No. 98-CH-202-1002)

Oklahoma

Richard Foresee, former chairman of the board of the **Shawnee** Housing Authority, pled guilty to defrauding HUD. The guilty plea is the result of a joint investigation by the FBI and OIG which determined that Foresee and the former executive director of the Authority, Jim Drake, schemed to convert Authority funds for their personal use. Drake pled guilty and has already been sentenced.

The former executive director of the Cherokee Nation Housing Authority in **Tahlequah** was indicted on 21 counts of mail fraud, 1 count of embezzlement from a tribal organization, and 1 count of false statements. The charges allege excessive reimbursement claims for travel expenses and the misapplication of over \$265,000 in Authority funds for Congressional lobbying from June 1993 through March 1998. The indictment is the result of a joint investigation by the FBI and OIG which disclosed that the former executive director allegedly received cash advances from the Authority before going on trips across the nation as chairman of Amerind Risk Management Corporation, a national insurer of housing projects built or managed by Indian housing authorities. In addition, the individual allegedly charged his expenses on an Authority credit card and then sought reimbursement from Amerind.

In **Muskogee**, a federal grand jury indicted a former employee of the Chickasaw Nation Housing Authority on two counts of embezzlement and theft from Indian tribal organizations. An OIG investigation disclosed that the former employee stole over \$2,400 in checks belonging to the Authority for credit life insurance premiums, and converted the money for personal use. The employee also embezzled \$8,000 of an \$8,500 loan check belonging to the Authority and used the funds for personal benefit.

Pennsylvania

Following a 2-week jury trial in **Philadelphia**, defendant Alfonso Gallo, a Montgomery County developer, was found guilty of obstruction of justice. This resulted from a joint FBI/OIG investigation of shoddy and incomplete renovation work by Montgomery County developers using HUD funds. Gallo faces up to 10 years imprisonment and a \$250,000 fine.

Linwood Vickery, a former **Philadelphia** Housing Authority inspector, was sentenced for taking a bribe from an Authority roofing subcontractor. He received 3 years probation, 3 months in a halfway house, and 300 hours of community service, and was fined \$3,000. He will also forfeit his entire pension from the Authority, less contributions he made. Vickery solicited and accepted at least \$500 from an Authority roofing subcontractor in return for his overlooking substandard performance and noncontractual procedures in replacing a roof on Authority property.

During the investigation by the HUD and Housing Authority OIGs, the roofer was criminally charged and cooperated with investigators to develop evidence against Vickery. William Dariel Harley, the roofing contractor, was sentenced to 1 year probation, including 3 months community confinement and 3 months home detention with electronic monitoring. Harley underpaid his employees under Davis-Bacon Act regulations and falsely certified that roofing work had been completed at two Authority housing developments. Because of his poor financial status, Harley received no fine or court ordered restitution.

South Carolina

In **Rock Hill**, Karen Yvonne Gregory, a former finance manager for the Catawba Indian Housing Authority, was sentenced to 17 months imprisonment and 3 years supervised release, and ordered to pay \$200 per month in restitution until she repays almost \$126,000 she embezzled from the Authority. Gregory used the Authority credit card to pay for personal items such as furniture, vacations, karaoke equipment, electric and gas bills, and cellular telephone bills. She previously gave a statement to an OIG Agent admitting to the embezzlement and was terminated from her position. This was a joint FBI/OIG investigation.

Tennessee

A Safe Home Task Force executed a search warrant at the **Bristol** Housing Authority and seized \$1,350 in evidentiary cash that was used to document controlled kickback payments made to the Authority's maintenance supervisor. A payment of \$1,250 had been made minutes before the warrant was served. The other \$100 was traced to a prior controlled payment. The payments were made by a cooperating contractor who admitted supplying falsified rival bids and paying close to \$30,000 to the Authority. This joint investigation, initiated following an OIG audit referral, was conducted by OIG and the Bristol Police Department.

Texas

Patricia Rodriguez, a former **Dallas** County Housing Authority finance clerk, was sentenced to 3 years probation, fined \$500, ordered to perform 120 hours of community service, and ordered to pay \$915 in restitution jointly with her husband, Jose Ezequiel Rodriguez. A joint investigation by the FBI and OIG disclosed that Patricia Rodriguez diverted more than \$1,000 in money orders from the Authority. She resigned from the Authority in December 1997, and a portion of the missing funds were recovered from her final paycheck. The investigation also found that Jose Rodriguez aided and abetted his wife, that he was using a social security number belonging to another individual, and that he was unlawfully in the United States and subject to deportation. He was sentenced to 180 days confinement, suspended, and was placed on 3 years probation, fined \$300, and ordered to pay restitution with his wife.

Jeff Grant, former lead foreman and grant coordinator for the **Lubbock** Housing Authority, pled guilty to theft and bribery. An investigation by the OIG Offices of Investigation and Audit found that Grant accepted bribes from contractors for work that was never done under the low-income housing remodeling program. Grant also submitted false and inflated invoices for work not done, used Authority materials for jobs at both non-Authority and Authority sites, and had four of his private companies that were doing business with the Authority using Authority materials and labor for his personal benefit.

In two related cases, Francisco Villegas and Joe Killgore, who were affiliated with Grant at the Authority, pled guilty to a felony for their part in not reporting the theft scheme. Villegas and Killgore obtained employment at the Authority, without competing for jobs and without written contracts, and inflated invoices for work not performed.

Grant admitted to theft of \$270,000 and has agreed to pay \$60,000 in restitution to the Department. Villegas and Killgore admitted to theft of \$80,000 and \$170,000, respectively.

A federal grand jury indicted a former **San Antonio** Housing Authority maintenance employee in a bid-rigging scheme, on one count of conspiracy and one count of theft of property from a federally funded program. A joint investigation by the FBI and OIG disclosed that the former employee paid contractors for phony “make readies” (preparing units for new residents when former residents move out). The employee allegedly had an agreement with a group of contractors. One contractor would be chosen to perform certain work while the other contractors submitted bids in excess of the amount the Authority would pay. After the contract was awarded, the contractors paid the former Authority employee when he approved invoices. The former employee allegedly caused payments of \$3,585 and \$3,510 to be paid for work that was never done. No further court dates have been set at this time.

Two former employees of the **Cuero** and **Victoria** Housing Authorities were indicted by a federal grand jury after an investigation by the FBI and OIG disclosed that the former employees allegedly embezzled and misapplied \$8,820 in funds from both Authorities. One of the former employees was a supervisor and the other was a carpenter hired by the former supervisor.

Virginia

Deloris Budd, former accounting clerk for the **Fairfax County** Department of Housing and Community Development (FCDHCD), was sentenced to 2 years in prison for each of 2 counts of state charges of embezzlement, plus 2 years probation during which she must maintain active employment and pay restitution. The sentences are to be carried out consecutively. Budd, who has been in jail since March 12, 1998, for her failure to appear at two pre-sentencing appointments and for testing positive for cocaine, embezzled over \$74,000 from the Section 8 Rental Assistance Program. At sentencing, Budd said she had a \$1,000 per week cocaine habit on which she spent more than half of the embezzled funds.

A OIG investigative and audit team assisted FCDHCD and the Fairfax County Police in this investigation. Budd had set up names of fictitious landlords and residents and caused rental assistance checks to be sent to a post office box in her name. She then deposited the checks in her credit union account, which she held in her name and the name of one of the fictitious landlords.

Bernard Odems, an **Alexandria** Housing Authority employee, pled guilty to one count of defrauding HUD. His wife, Maggie Odems, also pled guilty to one count of conspiracy. Their guilty pleas resulted from an OIG investigation which disclosed that the Odems, who had been receiving Section 8 rental subsidy, falsely reported their incomes, defrauding HUD of over \$51,000.

Wisconsin

In **Hertel**, Janelle Golden, former executive director of the St. Croix Chippewa Housing Authority, pled guilty to four counts of theft of Authority funds. A joint investigation by the HUD and Department of Interior OIGs disclosed that Golden diverted over \$50,000 of Authority funds by issuing checks to fictitious landlords, cashing checks, and then using the money for her own benefit.

Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily property for purposes other than to meet actual or necessary expenses. When owners do not pay their mortgages, in addition to the financial losses incurred, the living conditions in the developments generally deteriorate because the funds intended to maintain the individual units and common areas are diverted for unauthorized uses.

Under Operation Safe Home, we have expanded both civil and criminal enforcement opportunities and have streamlined referrals of civil cases to the U.S. Attorneys for prosecution. This has helped speed up the resolution of those cases where we have found equity skimming.

The following reflects the work that was accomplished during this reporting period and since the inception of Operation Safe Home:

Current Reporting Period			
Type of Enforcement Activity	Cases	Potential Amount	Repayments Required
New Cases Identified	15	\$9,280,000	
Cases Settled	4		\$3,156,000
Cumulative Activity			
Type of Enforcement Activity	Cases	Repayments Required	
Settlements	97	\$66,217,927	
Court Judgments	14	\$13,259,781	
Criminal Convictions	20	\$ 3,523,792	

California

In accordance with a May 11, 1998 repayment agreement with HUD, management agent Christian Church Homes, in **Oakland**, repaid \$72,200 to 24 insured multifamily projects. An OIG audit found that the agent did not follow HUD requirements when it (1) billed projects for labor in excess of actual costs; (2) billed for non-project expenses; and (3) claimed reimbursement of project expenses it could not support. The agent previously repaid two projects \$6,600 for excessive management fees and paid \$5,600 to another project for grant revenue not deposited to its account.

Connecticut

In **New Haven**, a review of West Street Apartments' annual audited financial statements identified possible equity skimming violations by the owner. These violations were confirmed as equity skimming during an on-site review. OIG referred the case to the U.S. Attorney's Office, which filed a complaint alleging

failure to make mortgage payments since July 1995, equity skimming in excess of \$330,000 which includes over \$220,000 paid directly to the project owner since the mortgage default, and failure to replace the management agent as required by HUD.

The government was eventually granted a motion for summary judgment and motion for possession of the development. In July 1998, HUD took possession of West Street Apartments. Damages have yet to be decided.

District of Columbia

The owner of Capitol View Plaza, Phase II, an insured multifamily housing development in **Washington, DC**, violated the Regulatory Agreement by withdrawing \$409,700 in project funds while the project was in a non-surplus cash position. An OIG audit disclosed that one of the project's general partners retained \$189,200 in rental income in Fiscal Years 1994 and 1995 that should have been deposited into the project's operating accounts. During the same time period, checks amounting to \$55,000 were withdrawn from the project's operating accounts and paid to the general partner. In FYs 1992 and 1993, the general partner withdrew over \$165,000 from the project's operating accounts.

While these funds were being withdrawn from the project, the management agent withdrew \$87,000 from the tenant security deposits account to pay operating expenses. At the same time, the management agent was making loans to the project to help pay operating expenses. The tenant security deposits account was not reimbursed for the withdrawals at the time of the OIG audit; however, the loans from the management agent were partially repaid from rental income received. The owner has agreed to repay the \$409,700 in full. (Report No. 98-AO-211-1803)

Florida

Stephen Rossi, the former owner who was also the management agent of two HUD insured projects in **Fort Meyers**, was sentenced in federal district court to 18 months imprisonment and 3 years supervised release. He was also ordered to pay over \$755,000 in restitution to HUD, and instructed not to liquidate any assets valued at over \$500 without the approval of the court. Rossi created false vendors to take more than \$798,000 out of the projects while they were in default. The projects had mortgages totaling over \$19 million, which were sold during the March 1995 non-performing note sale for 78 percent of the unpaid principal mortgage balance. This investigation was conducted by OIG following an OIG audit referral.

In **Tampa**, the president of the National Baptist Convention (NBC) and two individuals were indicted on 61 counts of fraud, extortion, money laundering, conspiracy, tax evasion, and making false statements to HUD. The three defendants used the NBC to steal and extort millions of dollars from various corporations and organizations. In addition, the NBC president was indicted for submitting false documents to HUD after he attempted to obtain a \$5.4 million HUD insured mortgage for a project in St. Petersburg. The documents were submitted to obtain HUD mortgage insurance on an adult aggregate care facility called Bethel Village, a project the president intended to build on property adjacent to the Bethel Metropolitan Church. The documents, which were forged, purported financial support of the NBC. The investigation was conducted by the FBI, IRS, and OIG.

Forfeiture proceedings were held against Joseph Travers of **Bay Harbor Islands**, who was previously convicted of equity skimming involving a HUD insured multifamily project, money laundering, bankruptcy fraud, and mail fraud. The court forfeited almost \$59,000 held in 3 bank accounts and a computer system valued at over \$6,000 that was used to further the money laundering scheme. This was a joint investigation by the HUD and Department of Veterans Affairs (DVA) OIGs.

In **Winter Haven**, Lawrence Burt, the former owner of Palm Place Apartments, and Marcia Baker, the former on-site manager, both pled guilty to one count of conspiracy to defraud HUD. They were previously indicted for making false statements to HUD, filing false claims with HUD, using the mail to defraud HUD, and trying to obstruct and impede an OIG audit by causing project employees to make false statements to OIG Auditors. Burt and Baker admitted that they made false statements by filing housing assistance payment vouchers claiming subsidy for units that were vacant and that did not meet housing quality standards. They did this by inserting on the vouchers the names of persons who did not reside in Palm Place Apartments, and falsifying inspection reports. This investigation was conducted by OIG and the Postal Inspection Service following a referral from the OIG Office of Audit.

Kentucky

The Reverend George S. White, Jr., the former management agent for the Henry Greene Apartments, a HUD insured property in **Louisville**, pled guilty to one count of embezzlement and using project materials for his personal use. He was previously indicted by a federal grand jury on 4 counts of embezzling over \$70,000 from the development. White diverted funds that should have been used to make needed repairs. This investigation was conducted by OIG.

Maryland

In **Upper Marlboro**, a settlement agreement was executed between HUD and the owners of Fellowship Square Foundation, Inc., to resolve issues raised in a 1992 OIG audit and investigation. According to the terms of the agreement, the project owners will: (1) transfer over \$87,500 to the Lake Anne I and Largo Landing projects; (2) transfer to the Largo Landing project or to HUD the following amounts in reimbursement of costs incurred by Largo Landing for roof repair: over \$31,600 to the operating account; over \$217,500 to the replacement reserve account; \$146,000 to the residual receipts account; and over \$233,800 to HUD for repayment of deferred debt service; and (3) reimburse HUD for nearly \$49,000 in audit and legal costs incurred by the Department. (Report No. 93-AO-214-1001)

Massachusetts

Alfredo Ribot, the former on-site manager of the Marcus Garvey Apartments, a Section 8 development in **Boston**, changed his plea to guilty to an indictment of one count of theft of federal funds and three counts of income tax evasion. An investigation, conducted by the FBI, OIG, and IRS Criminal Investigation Division, revealed that Ribot took over \$193,000 in project funds and converted them to his personal use.

As a result of a January 1993 OIG audit report, Lorenzo Pitts, Inc. of **Boston**, repaid HUD almost \$297,000 and repaid 4 HUD insured/subsidized

projects it owns and manages over \$137,000. The money repaid to HUD represents overcharges to HUD for payroll reimbursements (\$205,000) and unsupported payroll costs (almost \$92,000). The money repaid to the projects represents janitorial services paid to the management company with project funds. The audit disclosed that although an outside contractor performed these services, the management company did not pay the contractor, but instead used funds received from the projects for other purposes.

Michigan

The owners of Regency Townhomes in **Lansing** paid off the HUD insured mortgage of \$443,619 and reimbursed HUD \$14,251 for audit costs and \$15,000 for attorney fees. They also accepted a voluntary debarment by agreeing not to acquire any ownership interest in a HUD property for 3 years. This followed an OIG audit that disclosed that almost \$132,500 of project funds were improperly disbursed to or retained by the project owners. The owners also used another \$19,300 of project funds for ineligible and unsupported costs. Further, the project was not in good physical condition. An OIG Appraiser/Construction Specialist estimated that the project needed \$321,000 in repairs to bring it up to satisfactory condition. The Assistant U.S. Attorney in Grand Rapids negotiated a settlement with the owners. (Report No. 98-CH-211-1812)

Minnesota

In **Chaska**, at the request of the U.S. Attorney's Office, the OIG reviewed the books and records of SB Multifamily Fund 10 Limited Partnership. The Partnership owned Hazeltine Shores, an insured multifamily project. The General Partner of SB Multifamily Fund 10 was Sherman-Boosalis Corporation. The Partnership filed for Section 11 bankruptcy on June 15, 1992. On July 27, 1994, HUD paid off the mortgagee's claim on the project's defaulted mortgage.

We concluded that project funds were improperly used to make loans to related entities and to repay owner advances. With the concurrence of the Acting Director, Multifamily Housing Programs, on August 3, 1998, the Assistant U.S. Attorney completed a settlement with SB Multifamily Fund 10 Limited Partnership. To achieve a fair and equitable settlement amount, the Assistant U.S. Attorney gave consideration to amounts that the project owner had previously paid to the mortgage company pursuant to a lawsuit filed for violations of the Regulatory Agreement. Under the August 1998 settlement agreement, the project owner paid \$42,000 to HUD. (Report No. 98-CH-211-1811)

Missouri

The Department of Justice filed two civil suits in **St. Louis** under HUD's civil equity skimming statute. The U.S. Attorney for the Eastern District of Missouri, upon filing both suits, indicated "equity skimming contributes to the financial and physical deterioration of HUD projects and the surrounding community, and tends to result in substandard living conditions for families who reside there." In both cases the government requested that the court award it double the amount of the diverted funds, plus accrued interest, audit costs, attorneys' fees and equitable relief.

Named in the first suit filed are Dean Burns, Mary Burns, his wife, Westminster Development Company, Inc., Westminster St. Louis, Inc., and Westminster Properties, Inc. The filing resulted from an OIG audit that found the owner had systematically diverted \$1.4 million in assets from Donaldson Court,

NCC Rehab V and DeSales I housing developments over a 3-1/2 year period. The developments were either in default or in a non-surplus cash position during the diversion period.

The second filing named Judith F. Brilliant, James C. Roberts, and Philip L. Azar, who were general partners in Crosswinds Partners, LP. Excess insurance proceeds of more than \$300,000 were improperly diverted by the defendants from the 360-unit complex. An OIG audit led to the civil suit. (Report No. 97-KC-112-0801)

Mississippi

In **Jackson**, the U.S. Attorney's Office in the Southern District of Mississippi filed a \$15 million lawsuit against the owners of 3 HUD insured projects, Jackson Apartments, Metro Manor, and Americana Apartments, claiming that the owners failed to make required repairs to the properties. The lawsuit alleges that the owners "cheated the tenants out of a decent place to live, the surrounding neighborhoods are subjected to spiraling increases in crimes, and the taxpayers are ripped off." The projects had serious roach and rat infestation problems, and lacked adequate cooling and heating facilities. The lawsuit is seeking to recover three times the amount of money the government paid to the owners as a result of false reports they submitted. The lawsuit stems from the combined efforts of the U.S. Attorney's Office and the OIG.

New York

Samuel A. Weissmandl, former administrator of the Village of **New Square**, was sentenced after pleading guilty to one count of conspiracy, one count of embezzlement, and three counts of submitting false statements to the IRS. He received 3 years imprisonment, 3 years probation, a \$250 assessment, and was fined \$60,000. In September 1996, Weissmandl was indicted and charged with embezzling more than \$750,000 from a HUD funded multifamily complex and a nursing agency. The FBI and OIG conducted the investigation.

Jay L. Bloom, former president of Michael Walsh Homes Housing Development Funds Company, Inc., in **Utica**, was sentenced to 3 years probation, fined \$4,000, and ordered to pay over \$78,000 in restitution to the United Food and Commercial Workers, District Union Local One (UFCW Local One). Bloom previously pled guilty to two counts of conspiracy and embezzlement. He used approximately \$8,800 belonging to Michael Walsh Homes, a HUD funded multifamily housing development, to buy lumber to build a deck and a tractor to use at his personal residence. In addition, he was involved in a conspiracy with a union official to bill a local union for purported legitimate work by a design company he owned. The work, however, was done at the union official's residence.

As a result of this OIG audit and investigation, Bloom cooperated in a subsequent investigation by the FBI, IRS and Department of Labor OIG, Office of Labor Racketeering, Office of Labor Management Standards, and Wage Benefits Administration into the activities of UFCW Local One. This investigation led to the arrest of 12 people who held various leadership positions in the local and international UFCW, and other officers and contractors, for embezzling over \$2 million from the union.

North Carolina

The HUD North Carolina Office in Greensboro issued a notice of limited denial of participation (LDP) to the three owners of West End Plaza Apartments, a HUD insured multifamily project in **Reidsville**, and two related companies. The LDP was issued because the owners failed to provide decent, safe, and sanitary housing, make repairs with reasonable promptness, and accurately respond to HUD's physical inspection reports and implement corrective actions within a reasonable time. As a result of the LDP, the five parties are not permitted to participate in any programs administered by HUD. This action stemmed from an OIG Operation Safe Home review of West End Plaza.

Tennessee

Robert Willey, the former management agent of four HUD insured projects in **Nashville**, and his wife, Sherry Pedigo Willey, were sentenced for multifamily equity skimming. Robert Willey received 21 months in prison and 3 years probation, and was ordered to pay over \$460,000 in taxes. Sherry Willey was sentenced to 6 months home confinement and 3 years probation, and was ordered to pay over \$129,000 in taxes. The Willeys were previously indicted on 3 counts of tax evasion for failing to report over \$2.3 million in income. The unreported income was derived from over \$4.7 million that the management agent diverted from the HUD insured projects while they were in default. They spent \$2.3 million of that amount on items such as jewelry, automobiles, fur coats, travel, a motor home, and other personal items.

Willey did not make any mortgage payments on the projects from September 1987 to March 1992, when he was removed as the management agent. The mortgages on the 4 projects totaled over \$19 million. The properties were later foreclosed and sold, which resulted in a loss to HUD of over \$10 million. The U.S. Attorney's Office obtained three civil summary judgments against the defendants, totaling over \$10 million, which was double the amount of the funds the Willeys diverted from the projects. The investigation was conducted by OIG and the IRS following an OIG audit referral.

Texas

Lewis R. Wallace, the former general partner of The Village of **Kaufman** Apartments, Inc., was sentenced to 27 months in prison and 3 years supervised release, and ordered to pay \$698,110 in restitution. An OIG investigation disclosed that Wallace converted more than \$200,000 in project funds to his personal use.

Utah

Five-year debarments have become final on parties related to Rawson Management Company. A 1996 OIG audit of six HUD insured multifamily developments located in **Utah** and **Idaho** found that Rawson had misused and improperly disbursed over \$812,600 and had inadequate internal controls over project funds. This audit resulted from an Operation Safe Home equity skimming review. Mr. Rawson appealed his proposed debarment, but a final decision has not yet been reached on the appeal.

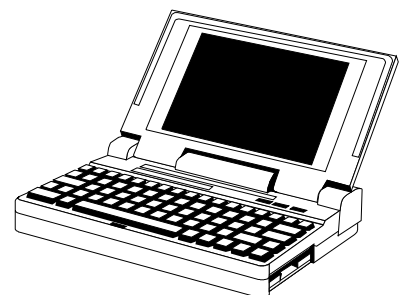
Audits

In addition to evaluating HUD's management reform issues, conducting activities in support of Operation Safe Home, and reviewing regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued nine reports and eight audit-related memoranda on internal HUD operations, and 40 reports and 26 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Cash recoveries amounted to \$11 million with another \$16.4 million in commitments to recover funds.

Certain of the audit reports issued this period are part of longer term OIG efforts to assess overall program performance. Specifically:

- In this 6-month reporting period, we issued audit reports on the Drug Elimination Grant Programs of 21 entities throughout the country. In the next reporting period, we will issue a report on common findings in the 21 audits.
- This period, we issued audit reports on implementation of three HOPE VI grants. Last period, we issued audit reports on the 1996 HOPE VI selection process and implementation of two HOPE VI grants. Next period, we will issue an overall assessment of the HOPE VI Program.
- This period, we issued audit reports on two Empowerment Zones. Next period, we will issue audit reports on two other Empowerment Zones and the management of the Empowerment Zone Program, then provide an overall assessment of the Program.

Other notable audit work this period included the OIG's first-ever comprehensive review of HUD's Office of Fair Housing and Equal Opportunity, an audit of the progress made by the Puerto Rico Public Housing Administration since the Administration entered into special agreements with HUD, and an in-depth look at the results of HUD's \$100 million Earthquake Loan Program for Southern California.



Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. With these program funds, local public housing agencies and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments. During this reporting period, we conducted a multi-district review of the Drug Elimination Program, reviewed various authorities' administration of federal programs, and reviewed instances of alleged fraud, abuse and mismanagement by certain Indian housing authorities.

Public Housing

Congress authorized the Public Housing Drug Elimination Program (PHDEP) through the Anti-Drug Abuse Act of 1988. The goal of PHDEP is to eliminate drug-related crimes and the problems associated with drugs in and around public housing. The Program encourages housing authorities to develop plans to address drugs and other related problems that include prevention and intervention initiatives.

Drug Elimination Program

We conducted a multi-district audit of PHDEP for Fiscal Years 1994 through 1997. We conducted 21 external audits of PHDEP grantees nationwide. The purpose of our review was to determine if grant recipients are effectively administering the program and if the Department accurately measures program accomplishments to assure the primary goal is achieved. From FY 1989 through FY 1997, HUD awarded 3,344 PHDEP grants totaling in excess of \$1.3 billion.

External audit reports were issued to address the specific problems found with recommendations to correct the conditions noted. We are in the process of preparing a summary report on the results of the 21 audits.

The OIG audited the HUD **Virginia** State Office to determine if the office effectively monitored drug elimination grants. A review of grants for Fiscal Years 1994 to 1996 for the Richmond, Petersburg, Portsmouth and Norfolk Housing Authorities found that grant recipients could not or did not document the basic level of law enforcement services provided prior to the awarding of grants, and therefore could not determine the amount of additional security and protective services beyond the basic level which would be funded by the grants. Norfolk and Portsmouth also incurred ineligible, unsupported and questionable costs.

The Office of Public Housing did not have adequate staffing resources to effectively monitor the PHDEP. Consequently, recipients were unsure of or disregarded program requirements. As a result, unsupported and ineligible costs of over \$2 million and \$21,500, respectively, were paid or budgeted from program funds.

The audit recommended that the Office of Public Housing monitor grant recipients to determine if grant funds are spent properly. Grant recipients should also be required to repay ineligible costs and justify unsupported costs. (Report No. 98-PH-101-0001)

An OIG audit disclosed that the **San Francisco, CA** Housing Authority overpaid the San Francisco Police Department more than \$372,000 for police services between 1996 and 1997 under two separate contracts. These funds came from PHDEP grants and a HUD comprehensive rehabilitation grant. The police billed at hourly rates exceeding actual compensation and benefit costs of officers and for hours exceeding the level contracted for, thus reducing amounts available for additional eligible activities. In addition, the PHDEP was charged nearly \$29,000 for two employees performing jobs unrelated to drug elimination activities, and over \$56,000 for the former director of neighborhood initiatives when he was providing no services. Also, the Authority did not require employees to document time spent on grant related activities. Consequently, accounting records did not show that nearly \$408,000 charged to the program was proper.

The audit also identified problems with the Authority's procurement practices and its implementation of the PHDEP. Documentation of the procurement process was generally unavailable, and evidence was lacking that adequate cost analyses were performed prior to entering into contracts. Also, the Authority had not established a systematic method of data collection and analysis to measure success in achieving goals, or adequately monitored contractors. Further, the Authority made substantial changes to its 1994, 1995, and 1996 PHDEP. However, it did not seek or obtain HUD approval, as required, prior to implementing the changes. The audit recommended that the Authority (1) improve management practices and evaluation methods to assure the program is properly implemented and intended goals are accomplished; and (2) return funds used inappropriately. (Report No. 98-SF-201-1003)

In administering the PHDEP, the Metro Dade Housing Agency in **Miami, FL**, did not establish a system to measure and monitor its grants; adequately report program results to HUD; execute and monitor contracts with service providers; and maintain proper managerial and accounting controls over its grants. As a consequence, the Agency expended almost \$247,000 prior to executing its grants and another \$355,000 in ineligible and unsupported activities. The Agency used grant funds for such ineligible or unsupported activities as janitorial services, indirect costs, holiday celebrations, salary expenses, and field trips.

We recommended that HUD require the Agency to develop and implement the necessary management controls to establish goals, measure performance, and ensure proper administration of its grants, and to reimburse its PHDEP grant or the U.S. Treasury for ineligible costs and resolve unsupported costs. The Agency has taken initial steps to correct some of these deficiencies. (Report No. 98-AT-202-1008)

An audit of the Housing Authority of the City of **Sarasota, FL**'s PHDEP for Fiscal Years 1994 through 1996 found that the Authority lacked the necessary controls to properly monitor, evaluate, and report program results. Specifically, the Authority did not establish a system to measure and monitor its grants to ensure that program objectives were met; adequately report program results to HUD; maintain proper control over grants; and execute and monitor contracts with private providers. The Authority spent almost \$378,000 without proper

assurance the funds were of intended benefit to the community. Of this amount, almost \$38,000 was ineligible because the Authority charged its grants for costs incurred prior to grant award and after grant expiration.

The report recommended that the Authority substantially improve its control over the program, reimburse the program or HUD for ineligible costs, and resolve unsupported costs of \$175,000. Also, HUD needs to recapture unused grant funds of almost \$81,000. The Authority has taken initial steps to correct some of the deficiencies disclosed in the audit. (Report No. 98-AT-202-1007)

An OIG audit of the **Woonsocket, RI** Housing Authority disclosed that the Authority needs to implement a system for evaluating, monitoring and reporting program outcomes under PHDEP; report revisions of PHDEP plans to HUD for approval; prepare performance reports in accordance with regulations; ensure the eligibility of costs charged to the program; and improve contract administration over service providers. We believe deficiencies in these areas exist because the Authority delegated oversight of the PHDEP to a consultant and did not adequately monitor his performance.

The Authority made revisions to its PHDEP activities which were not reported in writing to HUD, as required. Further, performance reports submitted to HUD were found to be substantially incomplete and unreliable. The Authority also charged over \$74,000 of ineligible costs to the PHDEP to supplement the Woonsocket Police Department and other ineligible non-PHDEP activities.

The audit recommended that the Authority submit a plan for HUD's approval to identify the uses of remaining grant funds; implement a system for monitoring and reporting grant outcomes/benefits and report them in timely and accurate performance reports to HUD; and improve its accounting procedures over grant funds. The HUD field office should also disallow over \$74,000 in ineligible costs and instruct the Authority to reimburse the program. (Report No. 98-BO-209-1003)

An OIG audit disclosed the **Holyoke, MA** Housing Authority did not effectively evaluate the outcomes of its PHDEP and did not report them to HUD in semiannual performance reports for 1995 and 1996. Community Policing calls for additional police services to create drug and crime free environments and to provide protection to the residents in the developments. Our review found that the Authority was not providing daily logs, time sheets or quarterly reports relating to their police services, as required. Community Policing has received criticism from Authority officials and residents regarding the accessibility of police to residents. As a result of our review, the Community Policing concept is now implemented, being administered effectively, and accurately reported. The Authority, however, still needs to establish and implement a system to measure the effectiveness and performance of the overall program.

The Authority's primary strategy in drug prevention is the opening of Holyoke Boys and Girls Clubs at public housing community centers. The purpose of these Clubs is to provide young people with an opportunity for youth development, tutoring, remediation and recreation. Our review disclosed that, while the sports program has been a great success, there has been little action in providing young people assistance in education, youth development, remediation and other alternative youth services.

The audit recommended that the Authority establish and implement a system for the tracking and reporting of its PHDEP regarding the performance of its Community Policing services and the Holyoke Boys and Girls Club activities. We also recommended that the Authority establish controls to ensure that all performance reports are accurate, timely and in accordance with HUD regulations. (Report No. 98-BO-209-1005)

An OIG audit of the **Alexandria, VA** Redevelopment and Housing Authority (ARHA) found that ARHA needs to improve its administration of the PHDEP. Specifically, the ARHA:

- Submitted incomplete semiannual reports to HUD.
- Failed to implement a system for evaluating, monitoring, and reporting PHDEP outcomes and benefits.
- Made revisions and charged almost \$65,000 to PHDEP activities which were not reported in writing to HUD.
- Charged expenses to incorrect PHDEP activities.
- Charged over \$57,000 in ineligible expenses to PHDEP.

We believe these conditions existed because ARHA's PHDEP administrator took actions regarding PHDEP activities without the full knowledge of the executive director and did not always properly distinguish between eligible and ineligible expenses in accordance with the Notice of Funding Availability. As a result, HUD had no assurance that ARHA met its PHDEP objectives and used its FYs 1994-1996 funds efficiently and effectively, or that residents received the full benefit from these funds.

The report recommended that the Director, Office of Public Housing, instruct ARHA to implement a system for evaluating, monitoring, and reporting grant outcomes and benefits, prepare and submit complete and accurate information in the semiannual reports to HUD, notify HUD of any changes to approved plans, improve accounting of program funds to ensure costs are charged to the proper activity account, and reimburse the program for ineligible expenditures. (Report No. 98-AO-209-1001)

In **Seattle, WA**, an OIG review of the King County Housing Authority disclosed that the Authority implemented PHDEP awards for Fiscal Years 1994 through 1996 with satisfactory outcomes/benefits in accordance with its plans. Specifically, the Authority identified and analyzed drug related crime problems at its targeted developments, planned activities to address identified problems, implemented planned activities, and developed a process to measure performance and demonstrate program outcomes. Although we found that crime statistics were inconclusive, residents told us that they feel safer in their communities as a result of drug elimination efforts. In addition, the Authority submitted required semiannual and final performance and financial reports in a timely manner, and expended funds on eligible activities only. Accordingly, the audit made no recommendations. (Report No. 98-SE-204-1003)

An OIG review found that the Municipal Housing Authority of the City of **Utica, NY**, has developed, implemented, and administered its PHDEP grant in an economical, efficient and effective manner. The Authority's programs have been effective in making residents feel safer by sensing a reduction of crime in their

developments. Likewise, there is evidence that drug related arrests have decreased in the developments since the start of the PHDEP. The Authority has an extensive approach to provide alternatives to drugs, has established partnerships with community based organizations, and is providing in-house programs for youths and adult residents.

The Authority, however, was unable to provide information on measurements of progress in drug elimination efforts in the manner HUD outlined or on a timely basis partly because the Utica Police Department's crime data tracking system is not computerized nor is the arrest information maintained in a manner that identifies PHA residents. Nevertheless, the Authority has made ample attempts to obtain pertinent crime statistics and uses this information in developing plans to provide security coverage. No recommendations were made in the audit. (Report No. 98-NY-209-1803)

The **Peoria, IL** Housing Authority implemented PHDEP awards for Fiscal Years 1994 through 1996 with satisfactory outcomes and benefits; submitted required performance and financial reports to HUD; and drew down grant funds according to its plans, budget, and timetable for Fiscal Years 1995 and 1996. However, the OIG audit found that the Authority used PHDEP grant funds for computer equipment that was not being used for its intended purpose. Six computers were not provided to the Peoria Police Department and three others had not been installed in computer labs for resident training as required by the HUD approved grants. The audit made specific recommendations for HUD to correct these deficiencies. (Report No. 98-CH-209-1001)

HOPE VI Grants

As part of a nationwide review, we audited the HOPE VI grants for the Housing Authority of **New Orleans, LA**'s Desire and Fischer projects and found that the Authority has not satisfactorily administered the grants. The Authority did not properly procure services, expend funds, plan its revitalization activities, or make adequate progress in implementing its revitalization and community and supportive services activities.

In our opinion, the risks and uncertainties involved in trying to carry out the revitalization of the Desire development do not justify the planned investment of \$70 million in federal funds. These risks and uncertainties include:

- Planned implementation based on conceptual plans, with uncertain funding and costs.
- Inadequate progress in implementing the grant.
- A poor location for the implementation site.
- A lack of City commitment.
- Major problems in procurement of a program manager.

In addition, almost 3 years after receiving the planning grant for the Fischer development, the Authority has only recently obtained a contractor to prepare a revitalization plan.

With respect to Desire, we made appropriate recommendations to reduce the Authority's financial risks to an acceptable level; otherwise, we recommended termination of the grant. We also recommended termination of the Fischer planning grant if the Authority does not make satisfactory and timely progress in implementing it. (Report No. 98-FW-201-1004)

An OIG audit disclosed that the Housing Authority of **New Orleans, LA**, departed from its procurement policy when placing residents on the selection panel for a developer in the \$25 million St. Thomas HOPE VI grant. Non-employees have no fiduciary duty to the Authority. In addition, the Request for Qualifications specified that each developer must include and explain a 35 percent goal to employ disadvantaged business enterprises and lower-income residents of the public housing developments as trainees and employees to the greatest extent feasible, in each phase of the work to be performed. Since residents would be receiving the jobs, there is an inherent conflict of interest when residents are placed on the panel.

Further, the Authority permitted the Resident Council to select three representatives to be on the selection committee but did not monitor how the Council selected these representatives. Although the Council stated that the representatives were nominated, seconded, and voted upon, it was unable to provide documentation. The audit recommended that HUD not grant a requested conflict of interest waiver, direct the Authority to convene a new panel consisting of Authority employees, re-procure the developer and provide residents an opportunity to advise the panel on the selection of the developer, and if appropriate, take administrative action against the developer. (Report No. 98-FW-201-1813)

General Administration

The **Tampa, FL** Housing Authority awarded contracts of over \$27 million under a special program designed to benefit resident owned businesses. An OIG audit found that the Authority abused the program by not awarding the contracts competitively and awarding the contracts to unqualified resident businesses. The Authority designed the program to benefit only a few selected non-resident contractors, while resident contractors received little lasting benefit. These practices resulted in over \$1.9 million in ineligible costs.

The Authority's relationship with its housing development corporations was not beneficial. In the last 5 years, the Authority has spent over \$1.8 million for activities that primarily benefited the housing development corporations, when the Authority's own Low-Income Housing Program had serious financial needs and its developments were in poor physical condition. Most of the benefits accrued to one corporation, the Tampa Housing Development Corporation, managed by a former Tampa Housing Authority executive director.

The audit also found that the Authority did not provide decent, safe, and sanitary housing for many of its residents; did not perform needed oversight and direction to assure its staff were performing routine and preventive maintenance; and was not operating its resident employee program in accordance with HUD and its own regulations. The Authority needs to improve its procedures used to verify resident income and adjust rents, inspect housing units, track work orders for housing repairs, record amounts collected from and owed by residents, and monitor resident employees. In addition, the Authority's 1997 Public Housing Management Assessment Program certification, and in some instances prior certifications, contained inaccurate information which resulted in higher scores than justified.

The audit recommended that the Authority reimburse HUD for all ineligible or unsupported costs; recover any of its assets the housing development corporations may inappropriately hold; and develop and implement controls and

procedures to assure compliance with HUD and Authority regulations. (Report No. 98-AT-206-1005)

At the request of the former HUD Secretary, the OIG reviewed the Puerto Rico Public Housing Administration in **San Juan, PR**, to assess its progress in correcting long-standing problems. The Administration signed a Partnership Agreement with HUD in February 1995 and a Memorandum of Agreement with HUD in June 1996 laying out goals and strategies to improve the Administration's performance so that it could be removed from HUD's troubled housing list.

Our assessment showed the Administration has slowly implemented some of the goals and strategies contained in the agreements, but has not completed many of its strategies within the established target dates. The Administration still has much work to do to become operationally sound. We found that the Administration:

- does not have a reliable vacancy tracking system;
- does not have an effective inspection program and has not addressed serious housing quality issues;
- does not have a reliable modernization tracking system supported by reliable and accurate data;
- needs to improve rent collections and the accuracy of tenant accounts receivable;
- does not have an adequate system to track development expenditures and budget; and
- does not have a financial system adequate to safeguard HUD funds.

While the Administration agreed that not all goals and strategies were met within the times agreed upon, it reached its overall goal of being removed from HUD's troubled list. (Report No. 98-AT-201-1806)

Northside Tenants Reorganization (NTR), **Pittsburgh, PA**, misspent at least \$360,000 of security funds. An OIG audit, conducted as the result of a referral from the OIG Office of Investigation, disclosed that NTR was formed for the purpose of improving the living conditions of residents of Northside Properties by implementing a program of tenant management to achieve a decent and safe environment. The audit found that NTR submitted budgets indicating funding would be used to provide for security personnel and related expenses for Northside Properties. However, it appears that the level of security provided continued to decrease as funds were used to support NTR's overall administrative costs, which were largely comprised of salaries and related expenses for NTR's executive director and family members.

The audit recommended that the Housing Authority of the City of Pittsburgh, which oversees NTR's operations, repay HUD the \$360,000 which NTR received but did not use for security related purposes, and implement procedures to ensure funds disbursed to grantees are supported by contracts detailing contract requirements and timely monitoring. (Report No. 98-PH-201-1804)

At the request of the U.S. Attorney for the Eastern District of Kentucky, the OIG reviewed the **Hazard, KY** Housing Authority (HHA) and concluded that prior HHA management did not effectively administer HHA's programs. The

former executive director and assistant executive director appeared to lack either the ability or desire to properly manage HHA, and lack of adequate board oversight allowed conditions to deteriorate. Deficiencies included records in disorder or missing; questionable/unsupported salary payments; unnecessary payment of taxes and tax penalties; purchase of luxury vehicles; inadequate inventory controls and records; required audits not submitted; inaccurate information reported to HUD; nepotism; units not timely prepared for occupancy; inadequate rent collection; inefficient cash management; and untimely physical improvements.

Ninety-seven percent of the family units we inspected did not meet HUD's housing quality standards. HHA management also neglected to follow required federal procurement procedures. Management procured materials and services, in some cases from relatives, without obtaining required price quotes or following bid procedures.

During our review, the former executive director and assistant executive director were indicted by a federal grand jury for controlled substance violations. The HUD Kentucky State Office immediately issued a limited denial of participation against both individuals. In January 1998, the individuals were convicted of multiple federal controlled substance violations, and in April 1998, they were each sentenced to 3 years probation and assessed criminal penalties totaling \$3,900. (Report No. 98-AT-206-1808)

The **Nampa, ID** Housing Authority completed construction of the Indian Creek Child Care Center through the use of Comprehensive Improvement Assistance Program (CIAP) funds. An OIG audit found that the Authority took over the Center's operations without a plan, procedures, or adequate controls to properly operate the Center. As a result, the Authority used over \$70,000 of its operating funds for child care expenses, primarily for nonresident children; payments from parents were unaccounted for; and some parents stopped using the facility due to its poor management and recordkeeping.

The Authority did not fully justify and document its need for a 7,700-square foot child care center and HUD's Portland Office did not do a thorough enough review to find this out before approving CIAP funds for construction. As a result, over \$552,000 in CIAP funds were used to construct a child care facility which may have been in excess of the residents' needs and is currently underutilized by Authority residents. HUD officials approved CIAP funds to construct the facility because they relied on the Authority's assertions and Head Start's commitment to use the facility without determining the child care needs of the residents.

The audit recommended that the Authority cease its operation of the Center and contract with a qualified provider to operate the Center. Also, the Authority board needs to determine a reasonable allocation of the funds they expended for the Center, and replenish its reserves by the amount paid for nonresident expenses. (Report No. 98-SE-202-1002)

An audit of the **Watervliet, NY** Housing Authority disclosed that the Authority generally provided decent, safe and sanitary housing to its residents. The Authority generally complied with program requirements and regulations pertaining to its Low-Rent Housing Program, but lacked sound internal controls over its operations. Additionally, the Authority's administrative policies and

procedures did not always comply with applicable HUD regulations and requirements. These weaknesses caused the Authority to incur ineligible costs of over \$2,000 and unsupported costs of over \$181,000. However, upon advising officials that the program does not allow utility services to be converted from individual meters to a master meter system, the Authority eliminated the activity from its plan. Accordingly, the cost attributed to the utility conversion of almost \$140,000 is claimed as a cost efficiency.

The report recommended specific actions to correct the problems cited and strengthen the Authority's administration of its housing program. (Report No. 98-NY-206-1004)

At the request of the Office of Public Housing, the OIG reviewed the **Rochester, NY** Housing Authority to determine if the Authority followed HUD procurement requirements when it hired contractors to perform lead-based paint testing. The review found that the Authority procured lead-based paint services from contractors without requesting proposals from other contractors and without always issuing written contracts. As a result, the Authority cannot be assured that the best quality services were obtained in the most economical manner.

The Authority's lead-based paint program was funded through HUD's Comprehensive Grant Program. We expressed concern that the Authority may not be following procurement requirements regarding other activities funded by the grant program. Therefore, we recommended that no further grant funds be released until the Authority establishes procedures ensuring it complies with HUD procurement requirements.

The review also disclosed that the Authority did not properly notify all its Spanish speaking residents of the hazards of lead-based paint. We recommended that the Authority maintain a supply of Spanish versions of lead-based paint informational notifications and warnings. (Report No. 98-NY-202-1804)

In response to a Congressional request, we performed a limited review of the **Harrietstown, NY** Housing Authority's Low-Rent Housing Program to determine whether the Authority had implemented the recommendations made by the HUD Buffalo Field Office during a fact-finding review. This fact-finding review stemmed from a complaint made by a resident representative to the board of commissioners.

We found that, although the Authority initiated some actions to correct the deficiencies disclosed in the Buffalo Field Office report, it has not completely implemented the report's recommendations. Furthermore, we identified two additional issues during our review. These issues involved the Authority's personnel policy and the modernization coordinator.

A personnel policy was drafted as a result of an independent public accountant's audit report. We reviewed this draft and recommended that the Buffalo Field Office require the Authority to issue it in final. On the issue of the modernization coordinator, the Authority did not have adequate documentation to justify the retroactive increase in salary or paid leave. Our report recommended that the Authority provide such justification. (Report No. 98-NY-202-1805)

An OIG audit of the Housing Authority of the Town of **Bloomfield, IN**, disclosed that the Authority's management controls were weak, and offered opportunity for employees to misuse or divert Authority funds. However, no instances of diversion were found.

The Authority did not follow HUD requirements regarding the rental of commercial and residential units; did not maintain an effective system of control over cash management; did not follow its procurement policy, HUD requirements, and the State of Indiana's Code regarding conflicts of interest; and did not have a plan to allocate direct costs among its programs. The audit recommended that the Public Housing Hub Director in Cleveland assure that the Authority implements controls to correct the weaknesses cited in the report. (Report No. 98-CH-202-1003)

Indian Housing

In **Seattle, WA**, oversight by the HUD Northwest Office of Native American Programs (NWONAP) of the Southern Puget Sound Inter-Tribal Housing Authority did not ensure that development requirements were met. An OIG audit disclosed that the Authority spent \$205,000 for a commitment to enter into a leasehold on a polluted site that cannot be used to develop the planned 10 units of low-rent housing until another \$468,000 is spent to remove the contaminants. The Authority also sold houses developed with low-rent funds to Tribal members for almost \$532,000 less than the \$749,000 it cost to develop them. Also, the Tribal Chairman, who was not eligible for the low-rent program, benefited from the Authority's action, receiving a 2,100-square foot, \$176,000 custom home in which he lived without making any payments for the first 11 months.

The audit recommended, among other things, that NWONAP determine the legality of requiring the Authority to reimburse its housing program for the costs of the purchase and environmental clean-up of the polluted site, and require the Authority to reimburse its housing program over \$749,000 for the development costs of 7 low-rent units that were sold. (Report No. 98-SE-107-0807)

In response to a Congressional request, the OIG performed a review of development costs of native housing in **Anchorage, AK**. The information we obtained during our review indicated that the costs of developing housing units at Eagle, Healy Lake, Tetlin, and Tok were not significantly above what they should be, given the types of housing constructed, their remote locations, and actual construction periods. (Report No. 98-SE-107-0808)

Of 12 complaints received concerning the management of the Yakama Nation Housing Authority in **Wapato, WA**, the OIG concluded that six were valid, at least in part, and that this was indicative of some broader management issues at the Authority. The following issues were identified:

- Occupancy - the Authority did not maintain adequate documentation to show how residents were admitted, follow established procedures in admitting two of seven residents whose files were reviewed, or admit elderly applicants in accordance with its own written policy and HUD regulations.
- Health and Safety - the Authority did not maintain natural gas furnaces at the Apas Goudy project in a safe condition, or provide adequate response to call devices at the Wanity Park project.

- Maintenance - the Authority did not always provide maintenance services in a timely manner, use resources efficiently on the Authority office addition, or conduct annual unit inspections.
- Modernization - the Authority did not ensure that rehabilitation costs remained within budget for all units or that homebuyer participation policies were followed.

The Authority stated that they are in the process of correcting or have already corrected these deficiencies. For example, they are filling several key supervisory vacancies with skilled construction personnel, increasing homebuyer outreach and unit inspections, keeping printouts of the waiting lists and requesting updates every 6 months, replacing all heating furnaces and installing carbon monoxide detectors at the Apas Goudy project, consulting with electrical contractors and equipment vendors to determine the most appropriate system configurations and the best staff deployment to respond to call devices, and revising Authority policies to ensure they are consistent with the Native American Housing Assistance and Self-Determination Act. (Report No. 98-SE-207-1004)

Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we conducted audits of the Section 203(k) Rehabilitation Mortgage Insurance Program and a non-supervised mortgagee.

The Southeast/Caribbean District Office of Audit in **Atlanta, GA**, directing an audit of the Section 203(k) Rehabilitation Mortgage Insurance Program, found that the program was generally successful for most of the 50 loans reviewed, made by 40 lenders to owner/occupant borrowers. In most cases, the borrowers effectively used most of the loan funds to acquire and substantially improve their properties. Only one of the 50 loans tested was in default. Although the program was successful in many respects, our review did disclose that substantial improvements were needed in lender performance. We found one or more problems with 40 of the 50 loans we tested. Four loans did not meet eligibility criteria and should not have been approved by the lenders. Some of the rehabilitation work for 19 loans was not complete, and some of the work for 7 loans was done with poor workmanship. The lenders for 28 loans disbursed the rehabilitation escrow funds to the borrowers without verifying the borrowers' actual costs. These problems increased HUD's risk for the insured loans and reduced the quality of the borrowers' living conditions.

We also found that borrower data was recorded incorrectly in HUD's database. About 1/3 of the 82 loans we tested were recorded in HUD's Computerized Homes Underwriting Management System as loans to owner/occupant borrowers when they were actually made to investors or nonprofit borrowers. This high error rate significantly reduced HUD's ability to effectively evaluate the performance of 203(k) loans by borrower type.

The audit recommended that HUD issue a proposed change to a mortgagee letter to require each lender to field review the final inspection report for a sample of the lender's loans to ensure the quality of the inspector's work. (Report No. 98-AT-121-0002)

In **Shawnee, KS**, an OIG audit of First Mortgage Investment Company's (FMIC's) Section 203(k) Rehabilitation Mortgage Insurance Program found that FMIC's program was generally effective. None of the 29 loans reviewed was in default. However, the audit found that FMIC approved three loans that did not meet prescribed eligibility criteria; disbursed rehabilitation escrow funds on four loans without obtaining adequate supporting documentation of actual costs; and miscalculated the 203(k) maximum mortgage and/or escrow commitment procedure amounts on seven loans. Based on our audit, FMIC agreed to develop and implement procedures to address the identified weaknesses.

The audit recommended that the HUD Single Family Homeownership Center take a sample of 203(k) loans originated subsequent to our audit and verify that FMIC has implemented new procedures, and that loans were made only for eligible rehabilitation, adequate documentation was obtained for all escrow disbursements, and mortgages were accurately calculated. (Report No. 98-KC-219-1002)

An OIG audit of the **Buffalo, NY** Branch Office of Countrywide Home Loans, Inc., a nonsupervised mortgagee, found that for 6 of the 20 loans reviewed, Countrywide did not adhere to prudent lending practices during the underwriting process. Each of the six loans had at least one significant deficiency and four were in default. We also found processing deficiencies that resulted from insufficient assets to close loans, discrepancies in the amount of earnest money on deposit, and income ratios that exceeded HUD/FHA standards. Consequently, mortgages were approved for unqualified mortgagors, causing HUD/FHA to assume unnecessary insurance risk.

The audit recommended that HUD's Mortgagee Review Board take appropriate administrative action against Countrywide and indemnify HUD/FHA for any future losses on the six loans in question. (Report No. 98-NY-221-1003)

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, the OIG reviewed various CPD programs.

Section 108 Loan Guarantees finance the acquisition or rehabilitation of real property owned by an eligible public entity, finance housing rehabilitation, and provide for economic development. The Innovative Homeless Initiatives

Demonstration Program, carried out in cooperation with states, local governments, and private organizations, demonstrates methods of assisting homeless individuals and families through activities that fill gaps in available services and resources. The Supportive Housing Program provides grants to develop supportive housing and services that will enable homeless people to live as independently as possible. The purpose of the Empowerment Zone and Empowerment Community Initiative is to create jobs and business opportunities in the most economically distressed areas of inner cities and the rural heartland. The Community Development Block Grant (CDBG) Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The Youthbuild Program provides grants for programs designed to offer youth sports, recreational, cultural, and educational activities.

Section 108 Loan Guarantees

In response to concerns expressed by the State of Alabama Department of Economic and Community Affairs, the OIG reviewed the Section 108 loan guarantee for Good Samaritan Hospital in **Selma, AL**. We concluded that the project had not met a national objective of the CDBG Program, in part because the project owner changed the intended purpose and physical configuration of the project without HUD, state or borrower approval. As a result, loan security was reduced, as was potential rental income to make loan payments. The project is still unfinished. We believe all project costs, totaling \$2.2 million, are ineligible.

Neither the state nor the borrower complied with the requirements of the Section 108 contract to submit to HUD monthly statements showing the balance, withdrawals, deposits, obligations and assignments of loan funds; to provide to the custodian an appraisal of the market value of the property; and to demonstrate to HUD that the value of the property, combined with the net worth of the personal guarantors, exceeded 125 percent of the note. As a result, HUD was not forewarned of the likelihood that the project owner had insufficient income and net worth to keep the loan current and make the required private investment. We believe these deficiencies justify declaring the loan in default to maintain the integrity of the program and protect HUD's and the public's interest.

Based on this review, we also recommended that the CPD Deputy Assistant Secretary for Grant Programs debar two consultants hired by the owner to manage the project. This is because the owner of Good Samaritan Hospital, Lighthouse of Dallas County, Inc., the eventual recipient of the funds, was a significant party to the violations found in our review, in large part because of the actions, or lack thereof, of the two consultants, both former HUD employees. The consultants were directly and significantly involved in making decisions that resulted in Lighthouse and/or the City's violating mortgage security agreements, contractual obligations, and regulations. (Report No. 98-AT-247-1805)

The OIG reviewed complaints from citizens and organizations concerning the City of **Spokane, WA's** Section 108 loan guarantee application for the redevelopment of River Park Square. The complaints were submitted to the OIG, the Office of CPD in HUD Headquarters, and to other entities.

The allegations related to environmental review requirements identified a possible violation of HUD and Council of Environmental Quality (CEQ)

Innovative Homeless and Supportive Housing Programs

regulations. The City approved permits for the work and the developer used his own funds for demolition of part of the River Park Square mall and to begin construction of the redeveloped River Park Square mall. This may be a violation of HUD's environmental requirements, which state that until HUD approves the release of funds and the related certification, the recipient may not commit non-HUD funds if the activity would have an adverse environmental impact or limit the choice of reasonable alternatives. According to the CEQ General Counsel, CEQ regulations governing limitations on actions during the National Environmental Policy Act process also apply and the City should probably have advised the developer not to proceed with construction.

Another allegation stated that the City did not adequately disclose information required to be disclosed under the HUD Reform Act of 1989. We found that the City did not disclose information in its Section 108 application about assistance from other government sources, the name and pecuniary interest of any interested party, and a report of the expected sources and uses of funds for the project.

The audit recommended that HUD obtain a written opinion from the HUD Office of General Counsel as to whether or not the City violated HUD's and CEQ's environmental regulations, and take appropriate action. HUD should also require the City to have its attorney prepare an opinion on alternative financing arrangements, and to submit to HUD the information required to be disclosed under the HUD Reform Act. (Report No. 98-SE-148-0003)

At the request of HUD's Georgia State Office, the OIG audited Innovative Homeless Program (IHP) and Supportive Housing Program (SHP) grants of the Metro **Atlanta, GA** Task Force for the Homeless, Inc. The audit found that the Task Force did not effectively administer its 1994 and 1995 IHP, for which it received over \$1.9 million in HUD funding. We identified over \$1.2 million of unsupported costs and nearly \$7,000 of ineligible costs charged to the 1994 and 1995 IHP grant. The Task Force could not measure its grant performance, and there was no assurance that resources were assisting the homeless persons intended to be served by the program. Additionally, the Task Force did not maintain proper accounting records for \$12.4 million in SHP funds. The Task Force reimbursed subrecipients over \$66,000 in unsupported costs and charged nearly \$9,000 of ineligible administrative costs to the SHP grant. Because the Task Force did not adequately monitor the subrecipients under its SHP, they could not demonstrate the impact SHP funding had on the homeless population or whether the subrecipients served the number of individuals proposed in the grant applications.

The audit recommended that the Task Force repay HUD all ineligible costs and resolve all unsupported costs, and establish accounting records to support the receipt and use of SHP funds and administrative costs. (Report No. 98-AT-251-1009)

An OIG review found that the Community Partnership for the Prevention of Homelessness (CPPH) in **Washington, DC**, had weak management controls over on-site monitoring of subgrantees and subgrantee submission of annual audited financial statements. Similar problems were noted during a December 1996 review of a CPPH subgrantee in which we identified over \$400,000 in

unsupported expenditures. We do not believe that CPPH has taken sufficient steps to help prevent the misapplication of funds from occurring again. In addition, CPPH drew down demonstration program funds in excess of amounts needed to satisfy disbursements.

The audit recommended that CPPH be required to begin describing its monitoring efforts in its annual report, withhold payments to subgrantees that do not submit audited financial statements on time, and implement procedures to restrict drawdown of funds to immediate needs, in accordance with the grant agreement. In addition, HUD should withhold funding from CPPH until the necessary management controls have been implemented and audited financial statements are received and reviewed. (Report No. 98-AO-251-1806)

Empowerment Zones

The City of **Atlanta, GA**, did not have adequate control over its Empowerment Zone funds. An OIG audit disclosed that the City inappropriately paid over \$739,000 for services from Empowerment Zone funds and was billed nearly \$54,000 for services that did not benefit Zone residents; used over \$429,000 of Zone funds to assist in the relocation of a business to the Zone, but the relocation of the business resulted in decreased employment and the closing of the business in its original location, which is not an appropriate use of Zone funds; committed \$400,000 of Zone funds to assist in the relocation of another business to the Zone, which will result in the closing of the business and decreased employment in the original location; and provided \$8,000 of Zone funds to assist in the purchase of a home located outside of the Zone. The City also did not competitively bid a contract awarded under the Empowerment Zone Program, inaccurately reported the accomplishments of its Zone activities, and incorrectly reported nine activities as Zone activities when they were not. As a result, Zone funds were not efficiently used, and HUD was provided with the impression that the benefits of the program were greater than those actually achieved.

The audit recommended that the Coordinator of the Empowerment Zone/ Empowerment Community Initiative, in conjunction with officials from the Department of Health and Human Services, assure that the City of Atlanta reimburses the Empowerment Zone Program for the inappropriate use of Zone funds and implements controls to correct the weaknesses cited in the audit. (Report No. 98-CH-259-1005)

The City of **Philadelphia, PA**, did not use its Empowerment Zone funds appropriately and did not correctly report the accomplishments of its Empowerment Zone Program to HUD. An OIG audit found that the City inappropriately used nearly \$84,000 of Empowerment Zone funds that did not benefit Zone residents; did not have documentation to show that nearly \$33,000 of Zone funds paid and over \$4,000 billed to the City benefited Zone residents or were reasonable and necessary expenses; spent over \$30,000 of Zone funds above the amount approved; inaccurately reported the accomplishments of its Empowerment Zone activities; and reported one project as an Empowerment Zone activity when it was not.

The City did not maintain adequate oversight over Empowerment Zones. Four of the 12 activities we reviewed incurred inappropriate or questionable expenditures of funds. The problems occurred because the City did not adequately monitor its Empowerment Zone activities, and did not have adequate

controls to ensure the appropriate use of Zone funds. The City also incorrectly reported the actual status and progress of 10 of the 12 activities we reviewed from the June 30, 1997 Performance Review, and failed to report obstacles encountered for one activity, as required by HUD.

The audit recommended that the coordinator of the Empowerment Zone/ Empowerment Community Initiative, in conjunction with officials from the Department of Health and Human Services, assure that the City reimburses the Empowerment Zone Program for the inappropriate use of Zone funds and implements controls to correct the weaknesses cited in the audit. (Report No. 98-CH-259-1006)

CDBG Program

The City of **New Haven, CT**, needs to assure that the Community Housing Corporation (CHC) is effectively meeting contract obligations and achieving desired results. CHC is a subgrantee operating the City's housing programs. In contracting with the City, CHC proposed, among other things, acquiring and rehabilitating single family and multifamily properties using CDBG funds for developing, marketing, and preliminary underwriting, and obtaining mortgage funds, including mortgages insured under the Section 203(k) Program, for rehabilitation. Since January 1995, CHC has received over \$4.3 million in federal funds and FHA mortgages. During this time, the City has provided CHC over \$2.3 million to acquire and rehabilitate homes, and continues to fund CHC, without assurance that CHC is operating effectively. While rehabilitation work on the 15 properties we inspected met standards, there were operational deficiencies at CHC that were detrimental to achieving the program goals of providing affordable housing to low- or moderate-income persons. CHC was not safeguarding federal funds, as evidenced by inadequate accounting records, lack of proper cost documentation for acquisition and rehabilitation of the properties, undisclosed related party transactions, excessive holding periods for properties, and questionable charges. In addition, HUD/FHA is at risk of paying out over \$710,000 in Section 203(k) rehabilitation mortgage insurance proceeds if CHC does not clear the defaults on seven of its mortgages.

The audit recommended that HUD instruct the City to evaluate CHC's performance, recover any misspent HUD funds, and assure that CHC is operating according to its contract. The Mayor of New Haven advised that the City will hire an outside accounting firm to design a compliance protocol and implementation program for the City to administer the program. In addition, the City is immediately suspending any future funding of CHC until all issues raised by the audit are resolved. (Report No. 98-BO-249-1004)

An OIG review, conducted in response to a Congressional inquiry, found no evidence to indicate the Cherokee Nation in **Tulsa, OK**, had misused grant funds drawn down from HUD. We found that program expenses exceeded drawdowns by more than \$230,000 as of December 31, 1997, and the house that Nation officials renovated was eligible for grant funds. Also, we found no evidence that officials used HUD funds to pay for lobbying activities.

We did find that the Nation had not fully implemented its accounting system at the time of our review. As a result, the new system could not produce a complete report of receipts and expenses, financial management reports, or a reliable general ledger for fiscal periods since September 30, 1996. This significantly impacts management's ability to make financial decisions. The

Nation is taking steps, however, to correct this problem. Their accounting staff prepared a report of receipts and expenses for each HUD grant for our review by using data from both the old and new systems. (Report No. 98-FW-259-1811)

The OIG reviewed citizens' complaints that the housing development director for the City of **Covington, KY**, used his position to favor a Covington developer who was a friend, and that the City lacked procedures or guidelines for its Urban Reclamation and Investor Rehabilitation Loan Programs. Although we were unable to prove or disprove favoritism, we found that both programs lacked written operational procedures, and property acquisition, disposition, and loan files were inadequately documented. In addition, some loans in the Investor Rehabilitation Loan Program were disbursed contrary to loan terms. As a result, the City could not document impartiality and fairness in program operations, and was susceptible to claims of favoritism, such as those made in the complaints. We recommended that the CPD Director, HUD Kentucky State Office, require the City to improve management controls in these HUD funded programs. (Report No. 98-AT-245/255-1811)

Youthbuild Program

In **Florida City, FL**, Centro Campesino Farmworker Center (CCFC), a nonprofit corporation engaged in social service and youth development as well as housing and community development activities, spent over \$131,000 on ineligible and questionable activities under the Youthbuild Program. An OIG audit disclosed that these activities included unsupported salary costs, stipends and wages paid from the wrong grant, unsupported and questionable contract labor costs, and other miscellaneous activities. In addition, CCFC did not adequately document the number of houses completed with Youthbuild labor, the method by which trainees attained construction skills and their proficiency in those skills, and job placement and follow-up activities performed by CCFC staff. As a result, CCFC had no objective way to determine the effectiveness of the Youthbuild grants. CCFC also failed to comply with its grant agreement when it changed education providers without HUD approval.

The audit recommended that CCFC reimburse HUD \$25,000 in ineligible costs, properly support over \$106,000 in questionable costs, implement controls to properly account for expenditures, measure and report educational and construction results, and evaluate and report on trainees' development. (Report No. 98-AT-259-1006)

Multifamily Housing Programs

In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to its Operation Safe Home equity skimming work, during this period, the OIG reviewed a bond refund agreement, the HUD Earthquake Loan Program, the operations of a multifamily project owner and a project manager, and an up-front grant.

Bond Refund Agreement

At the request of the Director, Multifamily Program Center, HUD Mississippi State Office, OIG audited the bond refund agreement for bonds issued by the **Indianola, MS** Housing Development Corporation (IHDC), for the period January 1, 1995, through April 28, 1998. IHDC is an agency of the South Delta Regional Housing Authority (SDRHA), contract administrator for Eastover Apartments' Section 8 housing assistance payment contract. The audit disclosed that SDRHA did not timely request or obtain \$50,000 from a bond refund which was due to the project's reserve for replacement account. These untimely and unsuccessful efforts to obtain the \$50,000 deprived the project of funds needed for repairs, which remain incomplete.

The project's FHA insured mortgage was originally funded by tax-exempt bonds issued in 1980 by IHDC. In 1995, IHDC refunded the bonds used to finance the project's mortgage with other tax-exempt bonds issued at a lower interest rate. The refund agreement stipulated that a portion of the savings from the refund would be paid to the project's reserve for replacement account.

The audit recommended that HUD require SDRHA to obtain the \$50,000 from the bond trustee and deposit the funds, plus accrued interest, to the project's reserve for replacement account, examine refund agreements, if applicable, for their other HUD insured projects to determine if the projects were due payments which were not made, and make any required payments, plus accrued interest, if necessary. (Report No. 98-AT-211-1807)

HUD Earthquake Loan Program (HELP)

In February 1994, the Emergency Supplemental Appropriations Act of 1994 was signed into law to provide relief to victims of a severe earthquake in Southern California. Under the Act, the Congress appropriated \$100 million for the Flexible Subsidy Fund to be used to restore earthquake damaged apartment buildings. Generally, actions taken by HUD **Los Angeles** Area Office staff provided prompt and effective relief to victims. However, we found areas where there needs to be more up-front disaster relief planning. Weaknesses in HUD's design of the HELP were most evident in four areas: waivers or modification of statutes, regulations, and handbook requirements created opportunity for abuse; HUD did not restrict funding to earthquake repairs and costs; program and loan administration guidance was unclear; and legal and reporting requirements were not addressed.

As a result of these problems, HUD obligated or disbursed questionable HELP funds of \$7.1 million to owners/agents of the 27 projects that we reviewed. A review of 4 projects found that the Los Angeles Office provided over \$500,000 more in funding than the cost estimates cited in the inspection reports for 3 of those 4 projects. In one sampled project, the Los Angeles staff approved over \$1.3 million in HELP funds to repipe and make related repairs at a project even though HUD San Francisco Office staff who inspected the project proposed that the repairs not be funded because they were pre-existing conditions that were not attributable to the earthquake. The Los Angeles Office also approved questionable deferred maintenance repairs or upgrades totaling over \$896,000 for 6 of 20 projects sampled. In another case, they approved the project's management improvement operating plan and HELP funds totaling nearly \$834,000 without performing an inspection of the project.

HUD has recently taken action to establish a disaster recovery program and has issued a guidebook on HUD staff functions and relationships with other

agencies engaged in the disaster recovery process. However, we believe there is a continuing need for detailed planning and instructions to address the problems found during this audit. The audit recommended that HUD direct the Director of the Los Angeles Multifamily Hub to identify and recover all HELP funds that were a duplication of other funds. (Report No. 98-SF-112-0001)

Owner and Manager Operations

The owner of Willow Park Apartments, **Clarksdale, MS**, and its identity-of-interest management agent did not properly manage Section 8 tenant certifications and recertifications. An OIG audit, conducted at the request of the Director, Multifamily Housing Division, HUD Mississippi State Office, found that the owner and management agent did not detect, in a timely fashion, acts committed by a prior project manager which resulted in nearly \$41,000 in excess subsidy payments by HUD. The excess payments occurred because tenant incomes used to calculate subsidies were understated, the verifications of employment (VOEs) used to support some subsidy calculations contained incorrect employment and understated income data, and, in some cases, the files did not contain VOEs to support income amounts used to calculate tenant subsidies. The audit also found that the owner needs to address deferred project maintenance in order to provide tenants the quality housing intended by the Section 8 Program and to protect HUD's interest in the insured mortgage.

The audit recommended that the owner compute and refund overpaid subsidy amounts to HUD, implement acceptable controls over project personnel and their administration of the Section 8 Program, and take action on deferred maintenance items. (Report No. 98-AT-211-1804)

Based on the review of a citizen's complaint, the OIG recommended that the Director of the HUD Knoxville Multifamily Program Center request limited denials of participation for the former resident manager of Greeneville Manor Apartments, **Greeneville, TN**, and his spousal assistant. A citizen complained that the former manager did not deposit or record in project accounts cash collections from residents, paid "phantom" companies for work performed by project staff, purchased items for personal use with project funds, and kept proceeds from the sale of project appliances. We verified that at least four residents had been paying the former manager rent in cash even though the residents' rent, based on their income, was zero. None of the rent was recorded in project records or deposited into the project's bank account. (Report No. 98-AT-212-1810)

Up-Front Grant

An OIG review of the up-front grant awarded to CEMI-Ridgecrest, Inc. for the construction of townhomes on the former site of the Ridgecrest Heights Apartments found that HUD properly entered into a negotiated sale with CEMI-Ridgecrest. CEMI-Ridgecrest is a nonprofit organization in **Washington, DC**, consisting of Crawford Edgewood Managers, Inc. and the Ridgecrest Heights Tenants Cooperative Association. The nonprofit was established to perform those functions necessary to carry out obligations under the contract of sale for Ridgecrest Heights Apartments and the up-front grant agreement with HUD.

In order to ensure that the redevelopment effort continues to progress as intended under the grant agreement, we recommended that HUD become actively involved in monitoring the sale of the townhomes; become actively involved in the establishment and monitoring of the Housing Trust Fund for the future

residents of the project; and establish a mechanism for the repayment to HUD of approximately \$10 million from the sale of the townhomes. We also recommended the recovery of over \$22,000 from an overpayment to the DC Housing Finance Agency for a redevelopment loan paid with grant funds; the recovery of over \$5,000 from CEMI-Ridgecrest in interest earned on money market accounts established with grant funds; and the transfer of the remaining balance of \$40,000 from the Ridgecrest Heights Apartments rental account to the Housing Trust Fund to be established for the new residents. (Report No. 98-AO-219-1804)

Fair Housing and Equal Opportunity Programs

Congress enacted laws to implement policy to provide, within constitutional limitations, fair housing throughout the country. These laws include prohibitions against discrimination because of race, color, national origin, religion, sex, familial status, handicap, and age.

An OIG audit of the HUD Office of FHEO disclosed that FHEO coordinated with state and local government agencies and public and private nonprofit organizations to prevent or eliminate discriminatory housing practices, and initiated a program to disseminate fair housing information to the public. Other efforts culminated in an agreement with the Department of Agriculture that would allow FHEO investigators, under the Fair Housing Act, to resolve discrimination complaints of rural Americans more quickly and effectively. Despite these efforts, the audit found that FHEO did not fully achieve its mission. Specifically, FHEO:

- Needs to significantly improve its management in three critical areas where deficiencies were most evident: (1) investigating complaints; (2) accepting and screening incoming claims; and (3) administering the Fair Housing Assistance Program. A review of 117 sample cases in 7 offices disclosed 107 cases (92 percent) that were not processed or investigated effectively, efficiently, and/or timely. These deficiencies occurred because FHEO did not provide sufficient supervisory oversight and adequate management controls for complaint investigations.
- Did not always ensure that program participants complied with civil rights and assistance to handicap regulations. A review of 33 compliance reviews performed by FHEO found that it allowed known violations of civil rights and assistance to handicap program regulations to remain unresolved because FHEO did not have a management system to track its caseload and did not provide adequate supervisory staff oversight.
- Needs to improve its administration of the Fair Housing Initiatives Program (FHIP). FHEO did not satisfactorily accomplish its FHIP responsibilities because it did not perform and document the FHIP grant award process timely or in an adequate fashion; and FHEO approved and disbursed grant drawdowns totaling \$6.2 million (73 percent) of the \$8.5 million reviewed that were not fully warranted.

- Did not submit annual reports to the Congress timely. For FYs 1994 through 1996, FHEO has either failed to submit or has submitted delinquent annual reports to the Congress. As of December 31, 1997, FHEO still had not submitted to the Congress its overdue annual reports for FYs 1995 and 1996. FHEO's FY 1994 annual report was issued in June 1996, 14 months after it was due. The delinquencies occurred because FHEO did not execute the necessary task orders timely, and failed to coordinate the compilation of required information.

Among other things, the audit recommended that FHEO develop and implement management controls to properly manage Title VIII investigation and compliance review caseloads, and require that sufficient supervisory oversight be provided to ensure that each management level adheres to established policies and procedures timely and accurately. (Report No. 98-SF-174-0002)

Automated Systems

Single Family Acquired Asset Management System

An OIG audit of the Single Family Acquired Asset Management System (SAMS) disclosed numerous internal control deficiencies that render the system ineffective for managing and controlling the inventory of properties undergoing disposition. OMB Circulars A-127 and A-130 require that financial systems controls be in place to protect governmental assets from theft and diversion, and to reduce the likelihood of losses and unnecessary expenses. SAMS is a critical system that does not meet the control requirements of OMB Circulars A-127 and A-130.

The most serious deficiency is in controlling expenses and disbursements. FHA did not develop a module in SAMS to record and track purchases and work orders because of schedule delays and cost overruns during system development. This module would have provided the capability to check the accuracy and legitimacy of the billings for services and goods ordered for properties under disposition. Without a purchase module, FHA cannot detect and prevent duplicate or fraudulent payments made during property disposition. In addition, tax payments were being processed through the regular expense transmittal process rather than using the SAMS tax module which schedules payments and provides some control over duplicate payments.

Other serious deficiencies found include:

- Sensitive data in SAMS are exposed to unauthorized use because of weak access controls and lack of background investigations of contractor employees.
- Continuity of operations is at risk because of an untested Disaster Recovery Plan and lack of preparation for the Year 2000 date problem.
- There is over-reliance on the existing contractor for software maintenance and operations because of proprietary software.
- SAMS cannot provide reliable information for management decisions during the disposition process because of inconsistent data.

Personal Computing Workstation Procurement

These deficiencies increase the risk of errors and system failures that could disrupt FHA's ability to process properties that enter the Single Family Property Disposition inventory. As a result, property holding costs could increase and negatively impact the FHA insurance fund.

The audit recommended that FHA work with the Office of Information Technology to conduct a business needs analysis of replacing the existing property disposition system. The analysis should also include an evaluation of the costs and benefits of implementing the recommended controls for SAMS. Such an analysis is necessary to determine whether additional investment in SAMS is needed. (Report No. 98-DP-166-0004)

An OIG audit of the personal computing (PC) equipment and accessories procurement practices found the Department had purchased computers and peripheral items at higher than fair market prices. The report concluded that buying PC equipment and accessories exclusively through the Indefinite Delivery Indefinite Quantity (IDIQ) arrangement with HUD's primary contractor for information technology was not cost effective. For example, the Department paid as much as 20 percent more than market prices for similar or identical workstations, and the IDIQ price for 93 percent of the peripheral equipment tested exceeded the General Services Administration (GSA) price list. Subsequent to our preliminary review, the Office of Information Technology initiated a change in the procurement practice by buying equipment from sources providing equipment at prices set by the GSA. These prices were usually lower than those of the IDIQ arrangement. The changed approach in buying computers saved HUD about \$3.8 million from 1996 to January of 1998. However, the revised procurement practice remained an informal process that would still allow items to be purchased at higher prices, whether by the GSA price list or the IDIQ arrangement. We recommended the Department adopt a policy where it is standard practice to comparison shop and purchase equipment at the lowest possible cost to the government. This policy was adopted shortly after issuance of our audit.

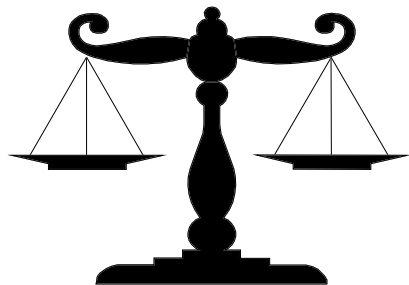
Regarding the follow-up review on weak inventory controls for PC equipment, the previously reported weaknesses still exist. The Department still lacks an effective inventory system to timely and accurately track new PC equipment ordered and received. As a result of these weak controls, the Department is open to theft of computers and related equipment. The Office of Administrative and Management Services and the Office of Information Technology are working on a system to account for PC equipment. (Report No. 98-DP-166-0002)

Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, investigative efforts resulted in cash recoveries of \$981,780 and court ordered restitution of over \$2.8 million, while fines levied exceeded \$934,000. In addition, 53 persons were indicted, 35 persons were convicted, and 304 years of prison sentences were imposed as a result of investigative operations.

Some of the more significant investigation results during this reporting period include the following:

- An individual was sentenced to 21 months in prison, 36 months supervised release, and over \$1.3 million in restitution for falsifying HUD Title I home improvement loans, lease agreements, and appraisals.
- A builder and 3 investors/partners pled guilty to building homes, paying \$1,000 to those who could qualify for loans, and falsifying the income and down payments of those who could not qualify. The builder agreed to repay \$425,000.
- An investor was sentenced to prison and \$753,248 in restitution for scheming to acquire single family properties by assumption and placing residents in the properties from whom he collected rents while letting the mortgages go into default.
- Two contractors and a fee inspector were indicted for making false statements in order to obtain a \$450,000 loan for the historic preservation of a building constructed in 1910.
- A general partner was sentenced to prison, supervised release, and nearly \$37,000 in restitution for submitting false documents concerning an \$800,000 Section 108 loan.
- Officers in a construction company were convicted of false statements, mail fraud, and conspiracy. They submitted claims for over \$3 million for compensation for expenses they claimed to have incurred for terminated contracts.



Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family loans as well as instances of equity skimming. Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from any HUD insured property.

Loan Origination

Rusty Fields, former president of the Optimum investment firm in **Tacoma, WA**, was sentenced to 21 months in prison and 36 months supervised release, and ordered to pay \$1,311,719 in restitution. This followed a guilty plea by Fields in January 1998 to one count of mail fraud and two counts of aiding and assisting in the preparation of false tax returns. Fields admitted that between 1992 and 1995, he falsified numerous HUD Title I home improvement loans, lease agreements, and appraisals, and prepared false tax returns. This investigation was conducted by OIG and the IRS Criminal Investigation Division.

In **Memphis, TN**, Courdia McDaniel was sentenced in U.S. District Court to 14 months incarceration to be followed by 36 months supervised release, and ordered to pay \$65,414 in restitution and a \$200 special assessment fee. McDaniel previously pled guilty to falsifying loan documents, verification of employment forms, income documents, and tax returns. She also presented herself to First Tennessee Bank under a different name. McDaniel, a free lance mortgage broker, obtained a Section 203(k) loan under the name Orlandra Wilks. She then made drawdowns on the escrow account from the bank, failed to pay contractors, and in some instances forged contractors' signatures and cashed checks. After the loan went into default and the scheme was uncovered, McDaniel twice filed bankruptcy petitions to stop foreclosure. Orlandra Wilks, the niece of McDaniel, admitted that she had agreed to file the first false bankruptcy petition. This investigation was conducted by OIG.

In **Norfolk, VA**, Noel Becerra, Jr., who recruited homebuyers for a real estate speculator and assisted the buyers in falsifying their loan applications, was sentenced to 12 months imprisonment and 5 years supervised release following his guilty plea to wire fraud charges. He was also ordered to pay a total of \$12,000 in restitution to HUD, the Department of Veterans Affairs (DVA), and a mortgage lender. Becerra, a former associate of speculator Wendell Chick, admitted to providing buyers of 13 residential properties owned by Chick with fictitious gift funds and credit references. Chick was previously sentenced to 5 years in prison for his leadership role in the scheme. This investigation was conducted by the Operation Homestead Task Force, consisting of the FBI and the HUD and DVA OIGs.

Karen D. Smith, a former real estate agent for Square One Realty in **St. Louis, MO**, and the current broker for Karen Smith Realty, was sentenced to 4

months home detention and 2 years probation after pleading guilty for her role in providing false statements on her own FHA insured home loan application as well as submitting false statements on two other applications in the capacity of real estate agent/broker. Smith used a false social security number and fraudulent employment information, and fabricated income tax returns on her own application. She also provided a false gift letter and inaccurate employment information on a client's application, and assisted in a strawbuyer scheme on other loans. This was a joint FBI/OIG investigation.

A federal jury in **Baltimore, MD**, convicted John Baumgarten and his two sons of conspiracy to distribute and possession with intent to distribute cocaine in connection with their running a drug smuggling ring out of their Severna Park barbershop, which they used as cover to sell more than 60 pounds of cocaine. The Baumgartens were also involved in the purchase of 6 HUD insured Section 203(k) properties in which drug proceeds were used at settlement and rehabilitation funds were not used for the needed home repairs. The jury also ruled in a special verdict that the Baumgartens had made roughly \$3.2 million in the drug trade in the last 5 years, and that 17 properties they own in Maryland and Florida must be forfeited to the government. Each of the Baumgartens faces life in prison when sentenced. This was a joint investigation by the FBI, OIG, DEA, IRS, and the Anne Arundel County Police Department.

In **Colorado Springs, CO**, Leroy Landhuis, a builder, and David Morgensen, Nedra Woods and Steve Cornaglia, all investors and partners in Eagle Crest Partners, entered into plea agreements with the U.S. Government. The agreements resulted from an OIG investigation which disclosed their participation in a scheme in which Landhuis built approximately 58 homes, and Eagle Crest Partners provided investors who purchased the homes with FHA insured loans. Investors who could qualify for the loans were paid \$1,000. For those who could not qualify, false statements were made regarding their income and down payments. All 58 properties went into default, resulting in the payment of over \$4 million in insurance claims by HUD.

Leroy Landhuis agreed to repay \$425,000 for his involvement in the scheme; David Morgensen agreed to pay \$50,000; Nedra Woods and Steve Cornaglia, along with Eagle Crest Partners, each agreed to pay \$125,000.

Real estate agent Leopoldo Martinez of **Los Angeles, CA**, pled guilty to one count of conspiracy and one count of loan fraud. Martinez and Moises Garcia, a loan officer, submitted false statements to HUD in order to assist borrowers in obtaining FHA insured home loans. Martinez faces 35 years imprisonment and fines of up to \$1,250,000. This was an OIG investigation.

In **Norfolk, VA**, real estate investor Richard Schaefer, Jr., pled guilty to one count of conspiracy to defraud the government. Schaefer obtained one Section 203(b) and four Section 203(k) mortgages using false income information provided by his former employer, MSRV Development, which also arranged for Schaefer's purchase of the properties. All of the properties have gone into foreclosure, resulting in losses to HUD exceeding \$150,000. During this investigation, the FBI and OIG developed evidence of false statements that

Schaefer made to obtain a \$194,000 conventional loan from a federally insured bank in Michigan. Although he was not charged with bank fraud related to this loan, the bank's loss will be used in calculating his sentence for the HUD insured loans.

Carla Lartedale, real estate agent for Square One Realty in **St. Louis, MO**, pled guilty to one count of false statements. The plea follows her indictment on one count of false statements to HUD and one count of obstruction of justice. Lartedale submitted false income tax returns in order to qualify one of her buyers who was applying for an FHA insured loan. Later, following the initiation of an investigation into false statements in the loan file, Lartedale attempted to persuade this same buyer to lie to federal agents. Lartedale is the second real estate agent/broker from Square One Realty to be arrested, indicted, and convicted following the execution of two search warrants and a year-long investigation by the FBI and OIG.

Nadine Malone, president of Madison Home Equities, one of **New York City's** largest mortgage companies, has agreed to pay HUD \$50,000 to settle charges that she abused the FHA mortgage insurance program. Malone also agreed to reimburse HUD for any losses if borrowers default on 31 loans that HUD determined were improperly originated. Madison's attorney, Neal Sultzer, also agreed not to participate for at least 1 year in any loan transactions involving HUD. The sanctions settle a civil action initiated by HUD against Malone and Sultzer in 1997. This was a joint investigation by OIG and the Postal Inspection Service.

A **St. Louis, MO** individual was indicted on one count of submitting false statements to HUD, one count of bank fraud, and one count of possessing identification documents other than ones lawfully issued. She is the third individual indicted in a single family loan origination fraud case. A real estate agent and a broker were previously convicted.

This individual allegedly used her 7-year old niece's name and social security number to enable her to purchase an FHA insured property. This unlawful use of another person's identity allowed her to hide a previous bankruptcy. She also allegedly supplied false income tax returns, indicating she was self-employed with a sizable income. She is a two-time convicted felon. This was a joint investigation by the FBI, IRS, and HUD and Social Security Administration OIGs.

Leacroft Austin McKenzie, a Jamaican national living illegally in the United States, was sentenced to 1 year conditional discharge with the condition that he maintain his mortgage payments and cease using a social security number not assigned to him. McKenzie fraudulently used a counterfeit social security card in order to obtain a \$95,000 FHA insured loan and over 15 credit cards. He was in danger of defaulting on the mortgage, and owes over \$15,000 in credit card charges on which he has failed to make payments since 1995. He was also wanted in Waterbury, CT, for criminal impersonation and forgery and has affected the credit rating of the person whose social security number he has been using unlawfully since 1989. McKenzie was arrested by a team made up of

the HUD and Social Security Administration OIGs, Postal Inspection Service, and the **New York City** Police Department's Special Fraud Squad. He was charged with forgery, offering false instruments for filing, and criminal impersonation.

A property speculator in **Norfolk, VA**, was arrested by FBI and OIG Agents following a federal indictment charging him with one count of conspiracy and eight counts of making false statements to HUD. The defendant is a former officer of four companies that were involved in selling properties to investors who used HUD insured Section 203(k) rehabilitation loans for the purchases. The indictment alleges that the defendant supplied false verifications of income/employment, bogus tax returns, and false gift letters to lenders on behalf of the buyers, and provided the buyers with unreported funds to pay their closing costs. All 18 properties identified in the indictment have gone into foreclosure, resulting in losses to HUD of more than \$800,000. Two former employees of the defendant's companies previously pled guilty to related charges and have cooperated in the investigation. This investigation with the FBI involved OIG Offices of Audit and/or Investigation in four Districts.

Equity Skimming

John Edwin Goldberger, a single family investor and former mortgage broker in **Phoenix, AZ**, was sentenced for his role in a scheme to acquire single family properties in Arizona by assumption and to place residents in the properties from whom he collected rent while letting the mortgages go into default. Goldberger stalled foreclosure by filing over 80 bankruptcy petitions. The sentencing also resolved charges relating to Goldberger's participation in a fraudulent single family loan origination scheme in San Diego, CA. Goldberger was sentenced to 30 months in prison to be followed by 60 months supervised release, and was fined \$5,000 and ordered to pay \$753,248 in restitution. In addition, Goldberger was restricted from engaging in any business related to real estate, financing, computers, trust and/or fiduciary functions. The investigation was conducted jointly by the HUD and DVA OIGs, with assistance from the FBI and HUD OIG Office of Audit.

In **Bay Harbor Islands, FL**, Joseph Travers, who was previously charged with a total of 59 counts involving single family equity skimming, money laundering, bankruptcy fraud, mail fraud, racketeering, and criminal forfeiture, was found guilty after a trial in federal district court. Travers fraudulently assumed 64 loans insured by FHA or guaranteed by DVA using more than 200 fictitious identities. He was receiving over \$30,000 a month in rental income from the properties, yet failed to make any mortgage payments. Travers devised an elaborate scheme of assuming FHA insured and DVA guaranteed properties, and used over 30 drop boxes and a telephone relaying system to rent the properties and collect the rents in order to keep his identity and location unknown. He subsequently defaulted on the mortgages. The loss to HUD was over \$1.8 million; the loss to DVA was \$200,000.

The investigation also disclosed that Travers laundered part of the money from the scheme by purchasing real estate in Bay Harbor Islands, FL, valued at over \$1 million. He used fictitious names and corporations so that the properties would be difficult to trace back to him. The U.S. Attorney's Office is requesting forfeiture of real estate valued at over \$2 million, \$160,000 cash, and 2 vehicles. This was a joint investigation by the HUD and DVA OIGs.

A **Baton Rouge, LA** loan originator was indicted by a federal grand jury on six counts of bank fraud and three counts of making false statements to a financial institution. This joint investigation by the FBI/Louisiana State Police Department/OIG Task Force found that the loan originator allegedly took \$6,700 from loan applicants that they had paid to a financial institution for credit reports, dissolving delinquent debts, and real estate appraisals. The applicants were first-time homebuyers who were participating in the Single Family Home Ownership Program to obtain bond money for assistance with down payments and closing costs. This program is administered by the Louisiana Housing Finance Agency. The investigation further revealed that the loan originator allegedly represented to the financial institution that the homebuyers had been approved for the program when in fact they had not. The loan originator took the funds intended for credit reports, etc., and deposited them in her personal account.

An individual in **Las Vegas, NV**, was arrested by FBI and OIG Agents after an outstanding bench warrant was confirmed. The individual was one of the targets in a loan fraud investigation. The warrant was issued in 1994 after the individual fled the country following his arrest by the Secret Service in a counterfeiting case. He subsequently returned to the U.S. under an assumed name.

The loan fraud investigation involves the use of strawbuyers to purchase single family homes with FHA insured mortgages. The strawbuyers obtained second and third mortgages, in some instances HUD Title I loans, before defaulting on all of the loans. The individual, along with others, profited from the proceeds of the second and third mortgages plus the rent collected prior to the defaults.

Immediately after the individual's arrest, a co-conspirator was stopped for questioning. She agreed to cooperate and signed a statement implicating herself, the individual, and others in the scheme. In June, the co-conspirator was the target of consensual monitoring of conversations she had with a cooperating witness. Those conversations substantiated the loan fraud scheme.

Section 8 Rental Assistance Programs

Section 8 Rental Assistance Programs assists low- and very low-income families in obtaining decent, safe and sanitary housing in rental or private accommodations. Assistance is provided through vouchers, certificates, or by HUD making up the difference between what a recipient can afford and the approved rent for an adequate housing unit. Although most recipients use their assistance for its intended purpose, OIG investigations have found that some circumvent program regulations by obtaining assistance under false pretenses. These cases may be investigated by Task Forces or individual OIG Special Agents.

Nettie Merriweather of **St. Louis, MO**, was sentenced to 3 months home confinement, 3 years probation, and 24 hours of community service following

her guilty plea. Merriweather pled guilty to one count of submitting false statements to HUD with her landlord, Melvin Cromer, following her failure to report his income and his presence in the household for 5 years. Merriweather received more than \$20,000 in excess Section 8 assistance. Cromer previously pled guilty and was sentenced. Merriweather and Cromer co-signed on a new car, credit cards, and life insurance. This was an OIG investigation.

As a result of an OIG investigation in **St. Louis, MO**, Section 8 resident Angel Cannon pled guilty to one count of submitting false statements for failure to report employment income and using a fraudulent social security number in order to hide the income from the St. Louis County Housing Authority. Cannon perpetrated the fraud for 7 years, and caused HUD to pay \$30,000 in assistance to which she was not entitled. Cannon also became involved in the same scheme against the State of Missouri concerning medicaid, food stamps, and aid to families with dependent children. She defrauded the State of Missouri out of an additional \$40,000.

Johnnie Mae Norton, a former **Dallas, TX** Housing Authority resident, agreed to plead guilty to one count of submitting false statements. Norton was indicted on five counts of false statements. A joint investigation by the FBI and OIG disclosed that Norton had misrepresented her household income, including that of her adult children, in order to receive more than \$14,000 in Section 8 benefits to which she was not entitled.

In **Brooklyn, NY**, a U.S. Postal Service Police Officer was charged with fraudulently receiving \$12,000 in Section 8 rent subsidy. Shayla Simpkins was arrested and charged with making false statements to HUD. She concealed her employment as a U.S. Postal Service Police Officer from HUD in order to obtain Section 8 rent subsidy. In a pre-trial agreement with the U.S. Attorney's Office, Simpkins agreed to pay \$12,000 in restitution to HUD, resigned from the Postal Service, made a complete admission of her guilt, and agreed to vacate her subsidized apartment. This was a joint investigation by OIG and the Postal Inspection Service.

In **Los Angeles, CA**, OIG Special Agents and U.S. Postal Inspectors arrested an individual at his residence on charges of mail fraud. His girlfriend surrendered on the same day and was also charged with mail fraud. Both defendants allegedly devised a scheme to sell Section 8 certificates by sending advertisements through the mail without authorization.

A two-count indictment was returned against a **Pittsburgh, PA** former Section 8 assistance recipient for falsifying annual recertification documents submitted to HUD. She allegedly failed to disclose her employment at a local hospital. Housing assistance payments totaling at least \$45,000 were paid by HUD on behalf of the recipient. This was an OIG investigation.

HUD OIG Agents and the City of **New Rochelle, NY** Police Department arrested a married couple for theft of government funds. By failing to report \$68,000 in social security benefits between 1993 and 1997, the couple received over \$20,000 in Section 8 rental assistance benefits to which they were not

entitled. The recently instituted Social Security/HUD Benefits History Report computer matching program enabled the City of New Rochelle to discover that the couple had been, and was still receiving, social security income.

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. OIG investigations of these programs disclosed cases of embezzlement, diversion of funds, false statements, bid rigging, and mail fraud.

Paul Chernick, director of a nonprofit HUD grantee in **Brooklyn, NY**, pled guilty to charges of making payoffs to a public official and embezzling grant funds received from HUD and other federal and state agencies. Elimelech Naiman, former director of the grantee, was convicted on charges of mail fraud and embezzling grant funds received from HUD and other federal and state agencies. Chernick and Naiman were previously indicted with others in a \$660,000 diversion of grant funds. The grantee and a related organization have received \$7.1 million in special purpose grants from HUD since 1993, which were authorized by special Congressional appropriations. The HUD grant funds were intended to create and administer business outreach centers in targeted neighborhoods, and serve elderly Holocaust survivors and immigrants. Some of the diverted funds were used to pay a New York State Assemblyman's personal and political expenses, including tuition expenses, fund raising dinners, and trips to Israel and France. The organizations received their funds by telephoning into HUD's Line of Credit Control System, which then transferred the money directly into their bank accounts. Chernick and Naiman diverted the funds to a bogus company, which expended the funds for other than their intended purpose. This was a joint investigation by the OIG, IRS, U.S. Attorney's Office, Postal Inspection Service, and the New York City Department of Investigation.

In **Albuquerque, NM**, two local contractors and a fee inspector were indicted on five counts of making false statements in order to obtain a \$450,000 Section 203(k) loan for the purpose of historic preservation of a building constructed in 1910. The contractors allegedly falsified a draw request, while the fee inspector certified that work had been done up to 97 percent completion, when in fact the building was only about 40 percent completed. This was a joint investigation by the FBI and OIG. No trial date has been set.

Wilbur P. Trammell, general partner of 400 Elmwood Avenue Associates, a limited partnership in **Buffalo, NY**, which owned a 77-unit apartment complex, was sentenced to 2 months incarceration, 3 years supervised release, and ordered to pay \$36,943 in restitution to the Buffalo Enterprise Development

Corporation. Trammell, a former chief judge of the city court and candidate for mayor, previously pled guilty to submitting false documents concerning an \$800,000 Section 108 loan. As a condition of the 3 years supervised release, Trammell must be confined to his residence for 4 months, and must perform 1 month of community service. As a result of his plea, Trammell has been disbarred by the state as a lawyer, and has received a limited denial of participation in HUD programs. This was a joint investigation by the FBI and OIG.

Robert Huhta, a former housing counselor at the Booker T. Washington Center in **Erie, PA**, pled guilty to state charges of theft by deception. He was sentenced to serve 14 to 28 months incarceration and 56 months supervised release after his incarceration, and ordered to make restitution to his victims. Huhta converted in excess of \$30,000 in proceeds, which 31 housing counseling clients had forwarded to him to stave off foreclosure of their properties. Five the FHA insured properties went into foreclosure. This case was jointly investigated by OIG and the FBI.

A federal judge in **Philadelphia, PA**, sentenced Alfonzo Gallo to 12 months in prison and 3 years supervised probation after release from prison. Gallo was also ordered to pay \$10,000 in fines. His sentence followed a previous conviction on charges of obstructing an OIG/FBI investigation into his fraudulent representations to acquire Community Development Block Grant funds for the proposed renovation of over 60 rental properties. The investigation disclosed several instances where final certifications of completion were submitted by Gallo, a real estate developer, to the Montgomery County Housing Services office from 1989 to late 1995. The certifications fraudulently indicated that 100 percent of the work contracted by Gallo was complete when in fact it was not completed and/or not performed as required by specifications. During the investigation, Gallo instructed several of his employees to lie to a federal grand jury about their employment status and the conditions of the HUD funded renovated properties.

A federal grand jury in **Memphis, TN**, returned 4 indictments on 20 counts of conspiracy, theft of government funds, and aiding and abetting as a result of an OIG investigation into the City of Memphis' Community Development Block Grant Program. As part of this program, funds were being utilized to demolish substandard housing and construct new single family housing for low-income and elderly citizens under a City program titled Rebuild. In the first indictment against a former supervisor for the City's Department of Housing and Community Development (DHCD) and a contractor, the supervisor and another City employee allegedly authorized the release of funds to specific contractors when no work had been performed. In this indictment, the supervisor authorized the contractor to receive \$38,204 for work never performed.

In the second indictment against a former DHCD contract specialist and a contractor, the contract specialist and a former City supervisor allegedly authorized the release of \$50,357 to specific contractors when no work had been performed. In the third indictment against another DHCD contract specialist and a contractor, the contract specialist and a former City supervisor allegedly authorized the release of \$78,198 to specific contractors when no work had been

performed. In the fourth indictment against a former contract specialist and a contractor, the contract specialist and a former City supervisor authorized the release of \$29,554 to specific contractors when no work had been performed.

The former bookkeeper of Safety Net, Inc., **Baton Rouge, LA**, was charged with making false statements to HUD. The bookkeeper was charged with lesser counts due to her cooperating in the federal investigation and testifying against the former director of Safety Net. The former director, Ambassador Lil Barrow-Veal, was convicted on 36 counts of false statements, money laundering, mail fraud, and other crimes. Barrow-Veal died in May 1998 before she could be sentenced. An investigation by the FBI, OIG, and the Louisiana State Police disclosed that Barrow-Veal and Safety Net misused the Homeless Program by repeatedly leasing properties to friends and relatives instead of using the \$1 per year lease from HUD to provide shelter for homeless persons.

In **Hannibal, MO**, contractor William Engels was sentenced to 4 months home detention and 3 years probation, and ordered to pay \$2,500 in restitution to HUD, following his guilty plea to submitting false statements. Engels pled guilty to rigging bids while he was involved in HUD's Community Development Block Grant Program administered by the City of Hannibal. He paid his own employees to purchase contractors' licenses, and then paid them an additional amount to submit artificially high bids in order to ensure he would be awarded home rehabilitation contracts. Engels later used these contracts as collateral for bank loans to buy a bar, to pay off bad debts to contractors, and to obtain operating capital. This was a joint investigation by the FBI and OIG.

Gregory Keith Mitchell, former president and executive director of a homeless shelter in **Washington, DC**, was sentenced to 5 months in a halfway house to be followed by 5 months home detention. He was also ordered to pay \$65,000 in restitution. The sentence followed Mitchell's March 1998 plea of guilty to charges of theft of HUD funds and making false statements. The funds were intended to help the homeless and were stolen by Mitchell while he was serving as president of the Community for Creative Non-Violence. This was an OIG investigation.

Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. With these program funds, local public housing agencies and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments. During this reporting period, the OIG discovered instances of false statements made by contractors and a violation of the Clean Water Act.

The president and vice president of a construction company, William and Ester Koenig, respectively, who submitted false claims to the **Virgin Islands**

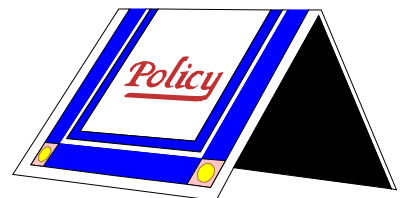
Housing Authority, were convicted by a federal jury. The Koenigs, owners of Coastal General Construction Company, were convicted on 17 counts of false statements, mail fraud, and conspiring to defraud the Authority and HUD. The violations occurred when the Authority terminated several contracts they had with the construction company, because the company could not obtain the required bonding. The contractors then submitted claims for over \$3 million for compensation for actual expenses they claimed to have incurred for the terminated contracts. They created false invoices to support the false claims. This investigation was conducted by OIG and the Postal Inspection Service.

Pan Building Corporation was sentenced following a plea of guilty to charges of negligent discharge, which is a violation of the Clean Water Act. Pan was ordered to pay a \$90,000 fine and will be placed on probation for 1 year. Suspension and debarment actions have also been initiated. While they were conducting asbestos and lead-based paint abatement projects in public housing communities under the jurisdiction of the **Pittsburgh, PA** Housing Authority, Pan dumped untreated wastewater into storm sewers which ultimately empty into the Allegheny, Monongahela, and Ohio Rivers. This case was jointly investigated by the FBI, OIG, and EPA Criminal Investigation Division.

In **Richmond, VA**, a contractor and his construction company were charged with failing to disclose that they were debarred from doing business with the government when they bid on six different HUD funded contracts through a local housing authority in 1997 and 1998. The debarment resulted from a federal bribery conviction. This was an OIG investigation.

Legislation, Regulations and Other Directives

Reviewing legislation, regulations and other policy directives is a critical part of the OIG's responsibilities under the Inspector General Act because it enables us to address areas that may be conducive to fraud, waste and abuse in HUD programs. During the most recent semiannual reporting period, we reviewed 145 legislative bills, regulations and other HUD policy directives. This Chapter describes some of our concerns and recommendations.



Legislation

Proposed Native American Housing Assistance and Self-Determination Act Amendments

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) was signed into law on October 26, 1996. The Act provided for consolidating HUD's Indian housing programs into a formula-based housing block grant program.

At the request of Senator Metcalf, we reviewed and commented on his proposed amendments to NAHASDA. Among other things, Senator Metcalf's amendments would provide for: (1) increased authority on the part of HUD's Secretary to ensure that tribes expend program funds properly; (2) full public disclosure of official tribal policies, reports, agreements, and plans; and (3) strengthening of the Act's audit requirements.

In two separate letters, we advised Senator Metcalf that his amendments echoed our concerns regarding the need for NAHASDA to provide for increased accountability and controls on the part of Indian tribes and their tribally designated housing entities, and ensure that program funds are expended in full compliance with the law. We reported that these amendments would go a long way toward improving the effectiveness of the NAHASDA statute, without diminishing tribes' flexibility to carry out housing activities consistent with their needs.

As of the close of the semiannual reporting period, these amendments had not been enacted into law.

Regulations

Public Housing Assessment System

During the semiannual reporting period, HUD published proposed and final rules for its new Public Housing Assessment System (PHAS). This system is a critical component of the public housing reforms outlined in HUD's 2020 Management Reform Plan. It will replace and expand the Public Housing Management Assessment Program, which is the current system being used by HUD to assess the management performance of public housing agencies (PHAs). The new PHAS system will be used by HUD's recently established Real Estate Assessment Center to determine which PHAs are "troubled," and will require intense monitoring by the Department's Troubled Agency Recovery Centers, and possible referral to the Enforcement Center for receivership action.

The Department forwarded the PHAS proposed rule to the Congress for its review without first providing our office an opportunity to review and comment on the rule. However, in subsequently reviewing and commenting, we advised HUD that the rule was unclear, incomplete, and inappropriate in many areas. In fact, we questioned whether the proposed rule was in a form ready for publication in the Federal Register, given its lack of substance and details, and inclusion of several inappropriate provisions. We notified the Department of our official nonconcurrence in the rule. HUD nevertheless published the proposed rule in the Federal Register on June 30, 1998, without adequately addressing all

of our major concerns. In commenting on the proposed rule, various PHA constituency organizations also expressed concern regarding the rule's lack of substance and details, among other issues.

With respect to the lack of substance and details, we commented that, while the proposed rule provided for assessing PHAs on the basis of established performance indicators, it did not provide for any desired levels of performance on the part of PHAs. Neither did the rule indicate how the specific components of each performance indicator would be weighed and scored by the Department. In addition, the rule provided for the potential inequitable treatment of standard-performing PHAs, as compared to troubled PHAs. Further, the rule seemingly allowed a PHA to remain in a troubled status indefinitely.

The final rule was published in the Federal Register on September 1, 1998. As with the proposed rule, HUD did not formally request us to review and comment on its final rule. Nevertheless, HUD adequately addressed many of our major concerns with the proposed rule, with the exception that the Department did not adequately address the weighing and scoring of the rule's performance components and indicate what constituted acceptable levels of PHA performance.

Uniform Physical Condition Standards and Physical Inspection Requirements For Certain HUD Housing

During the semiannual reporting period, HUD published proposed and final rules for its new physical condition standards and physical inspection requirements for public housing, Section 8 project-based housing, FHA insured multifamily housing, and other HUD assisted housing. The new rule establishes uniform physical condition standards and physical inspection requirements for HUD housing that are designed to ensure such housing is decent, safe, sanitary, and in good repair.

We nonconcur in the proposed rule and questioned HUD's rationale for excluding the Section 8 tenant-based assistance programs from the rule's requirements. We indicated that having two sets of housing standards for HUD assisted housing programs could result in treating assisted families and owners unfairly and inequitably. We also commented that the proposed rule was too general and subjective, and that it did not adequately explain how inspection results would be processed and scored by HUD. Lastly, we indicated that allowing PHAs to use their own inspection procedures, rather than requiring them to use HUD's new computerized inspection protocol, might result in HUD and PHAs arriving at inconsistent and varied inspection results. HUD published its proposed rule on June 30, 1998. The published rule did not address our concerns.

The final rule was published in the Federal Register on September 1, 1998; however, HUD did not formally request our review and comments on the rule. The final rule did not address our concerns. However, with respect to our concern that PHAs were not being required to use HUD's new computerized inspection protocol, the rule's preamble indicated that HUD may require PHAs, at some future point in time, to inspect their units in accordance with the Department's inspection protocol.

Section 8 Management Assessment Program

This rule establishes the Section 8 Management Assessment Program (SEMAP), which is designed to provide the Department with an objective measurement of PHAs' performance and capabilities in carrying out critical aspects of HUD's Section 8 rental voucher and certificate programs.

Our office nonconcurred in the SEMAP final rule in November 1997, in conjunction with the Department's pre-publication clearance of this rule. We reported our concerns with this rule in our prior Semiannual Report to the Congress. Generally, we expressed concern that the rule was focusing primarily on measuring compliance with HUD regulatory requirements, with no consideration being given to measuring the dollar magnitude or seriousness of housing authority noncompliances, or the quality or impact of their performance. Also, we recommended that HUD clarify the rule's required audit sampling for verifying PHAs' performance. We further noted that in verifying PHAs' performance under many of the rule's performance indicators, HUD would ultimately be relying on the Department's Multifamily Tenant Characteristics System (MTCS), which has data quality problems. In addition, we questioned HUD's rationale for excluding the Department's Section 8 project-based assistance programs from the rule's requirements.

Continued dialogue between our office and the HUD program office occurred during this semiannual reporting period in an effort to resolve our outstanding nonconcurrence in this rule. In April 1998, we removed our outstanding nonconcurrence even though HUD did not address all of our concerns. We took this action because the rule had been in process for nearly 2 years without being formally published as a final rule, and we did not wish to delay implementation of the rule any further.

The SEMAP final rule was published on September 10, 1998. In the published final rule, HUD made some minor changes to enhance the quality of the rule's performance indicators, but stopped short of building a component into the indicators to measure the quality and impact of housing authority performance. Moreover, the Department decided not to adopt our recommendation to place HUD's Section 8 project-based assistance programs under the purview of the rule. Also, in the preamble to the rule, the Department stated that it would not rate performance indicators until it is confident that MTCS data are reliable and guidance has been issued to assist non-federal auditors in measuring PHA compliance under the rule. The full implementation of SEMAP, including HUD's assignment of PHA performance ratings, is not expected until early calendar year 2000.

Sanctions for Underreporting of Income in Assisted Housing Programs

This proposed rule would specify sanctions to be imposed in HUD's assisted housing programs by PHAs or owners engaged in managing such programs when tenants underreport their incomes.

We nonconcurred in this rule. For the purposes of determining whether to pursue enforcement actions, the draft proposed rule provided for the establishment of a threshold amount of unreported income. However, the codified section of the rule did not state the established threshold. Rather, it merely stated that HUD would establish a threshold amount in a "notice published in the Federal Register." The Supplementary Information portion of the rule, however, did state that the threshold amount would be initially established at \$1,000. To facilitate the public comment process, we recommended that the threshold amount be incorporated in the body of the rule and that the rule's preamble state how the threshold was determined. In addition, the draft proposed rule required processing entities (PHAs, property owners, etc.) to perform a cost-effectiveness test in determining whether to pursue certain enforcement actions. We expressed concern that the rule did not

provide any guidance as to what this test was to entail and how it was to be carried out, thereby making it too easy for processing entities to justify decisions not to pursue enforcement actions. We also recommended that the rule require processing entities to document their decisions to pursue specific enforcement actions or not to pursue any actions. Further, we pointed out several areas where the rule was too general and vague with respect to terminology and timeframes for accomplishing certain actions.

We removed our nonconcurrence on HUD's proposed rule based on discussions with HUD officials and corrective actions promised. As of the close of this semiannual reporting period, the proposed rule had not yet been published in the Federal Register.

***Modernization
Funding
Replacement
Housing
Factor***

This final rule revises the regulations governing the formula allocation of modernization funding under HUD's Comprehensive Grant Program (CGP) by adding to the formula a replacement housing factor. This replacement housing factor would maintain, for 5 years, a portion of funding that otherwise would be lost by a CGP housing agency when the number of its public housing units are reduced as a result of demolition, disposition, or conversion of the units. HUD claims the rule is needed to encourage housing agencies to demolish, dispose of, or convert units that are not providing decent, safe, and sanitary housing.

In January 1997, our office nonconcurred in the proposed rule for the replacement housing factor, but removed our nonconcurrence in February 1998 in order to permit HUD to publish the rule for public comment. In April 1998, we nonconcurred in HUD's final rule. In commenting on the final rule, we recommended that HUD consider conducting a Front-End Risk Analysis (FERA) because the rule appeared to involve substantial revisions to an existing HUD program. However, HUD's Office of the Chief Financial Officer, which oversees the Department's FERA Program, approved the program office's request to waive any applicable FERA requirements. We also recommended further clarification of the rule's provision relating to a housing agency's receipt of replacement housing funding under other HUD programs. We considered the Department's revised language acceptable. Lastly, we recommended that the rule indicate the source document for determining the number of housing agency units reduced as a result of demolition, disposition, or conversion, as well as the party (HUD or the housing agency) responsible for determining the number of units reduced. The Department revised the rule to state that HUD was responsible for determining the number of units reduced, but did not indicate a specific HUD document from which the number would be generated.

We removed our outstanding nonconcurrence on HUD's final rule in July 1998. The final rule was published in the Federal Register on August 28, 1998.

***On-Site
Completion
of
Manufactured
Homes***

The proposed rule would allow the sale or lease of manufactured homes that are not in compliance with the National Manufactured Housing Construction and Safety Standards Act of 1974. The rule proposes a procedure that permits deviations from existing requirements when an aspect of construction cannot reasonably be completed in the manufacturer's production facility and partial completion is required on site. The manufactured home would be labeled as meeting the National Manufactured Housing Construction and Safety Standards Act when the home left the factory, even though additional on-site work would be necessary to conform to the standards. After the home was delivered and on-

site work was completed, the manufacturer would be required to conduct a final inspection and certify that the work was completed.

The National Manufactured Housing Construction and Safety Standards Act of 1974 is very specific that the label is the manufacturer's certification that the home meets all applicable federal construction and safety standards (42 U.S.C. 5415). Since the proposed rule would allow labeling the home before it conforms to all standards, we questioned whether the rule complied with the Act. Instead, we suggested that HUD revise the proposed rule to use an alternative two-step labeling process. HUD asked for public comment on whether the proposed rule was workable and requested comments on whether the rule should require a two-step labeling process that calls for placing a conditional label on the home at the factory and placing the final label on the home after completion of the on-site work. We believe the two-step process would satisfy the intent of the Act.

As of the close of this semiannual reporting period, HUD had not responded to our comments and concerns, and had not published its proposed rule in the Federal Register.

***Multifamily
Housing
Mortgage and
Assistance
Restructuring
Program***

This interim rule implements recently enacted legislation that created the Mark-to-Market Program through which Section 8 rents for multifamily projects with HUD insured or HUD held mortgages will be reduced. The purpose of the program is to preserve low-income rental housing affordability while reducing the costs of federal rental assistance and minimizing the adverse effect upon the FHA insurance funds.

OIG nonconcurred on the interim rule because of serious concerns with the manner in which the rule was implementing the legislation. Compensation, performance, and termination provisions for participating administrative entities performing the restructurings were not adequate to protect the Federal Government's interests. Additionally, the rule did not adequately ensure that only eligible owners and projects would be permitted to participate in the program, or that rents would be kept in line with market comparables after the initial restructuring. While most of our concerns were addressed in the interim rule that was published, other changes were promised to be made when the final rule for the program is issued.

Notices of Funding Availability (NOFAs)

***SuperNOFA for
Economic Development
and Empowerment
Programs***

In FY 1998, HUD dispensed with its policy of issuing separate NOFAs for each of its estimated 40 competitive grant programs. Instead, it adopted a policy of announcing available funding for most grant programs through SuperNOFAs, which consolidate funding for similar categories of programs into one NOFA and standardize the processes for submitting and approving applications for funding.

HUD's SuperNOFA for Economic Development and Empowerment Programs announced the availability of approximately \$176 million in FY 1998 HUD program funds covering 10 economic development and empowerment programs.

Our office nonconcurred in the SuperNOFA. Many of our nonconcurring comments dealt with inconsistencies in program requirements, inappropriate policies, and the need to clarify or expand upon certain provisions of the NOFA. Many of our concerns related to HUD's Economic Development and Supportive Services Program and Tenant Opportunity Program. With respect to these programs, we questioned how HUD was suballocating funds within these programs and establishing funding parameters by category of need. We also questioned the legal basis for HUD's funding intermediary organizations directly, in contrast to funding site-based resident organizations directly. Further, we questioned several of the programs' application rating factors and the assignment of points. In addition, we questioned the eligibility of applicants listed in the NOFA for the Local Lead-Based Paint Awareness Program.

For the most part, HUD either revised the NOFA to reflect our concerns or offered satisfactory explanations of its rationale for handling and presenting the matters we questioned. This SuperNOFA was published in the Federal Register on April 30, 1998.

***The Family
Unification
Program***

This NOFA announced the availability of approximately \$12.2 million of FY 1998 one-year budget authority for Section 8 rental certificates under HUD's Family Unification Program. The purpose of this program is to provide housing assistance to families for whom the lack of adequate housing is a primary factor in the separation, or imminent separation, of children from their families.

During the semiannual reporting period, we nonconcurred in HUD's draft Family Unification NOFA, primarily because many of its provisions were unclear and in need of explanation or written clarification. The Office of Public and Indian Housing provided the appropriate explanations and clarification, and our nonconcurrence was subsequently removed. The NOFA was published in the Federal Register on June 1, 1998.

***Family
Self-
Sufficiency
Program
Coordinators***

This NOFA announced the availability of up to \$25.2 million in FY 1998 to fund Section 8 Family Self-Sufficiency (FSS) Program Coordinators. The FSS Program is intended to promote the development of local strategies to coordinate the use of assistance under the Section 8 rental certificate and voucher programs with public and private sources to enable participating families to achieve economic independence and self-sufficiency.

Our office nonconcurred in the FSS Program Coordinator NOFA. We expressed concern that HUD was continuing to award funds for this effort noncompetitively to the same previously funded housing authorities, without appropriate evaluation of what was being accomplished and how effectively it was being accomplished. We also recommended that HUD state in the NOFA clearly and definitively what constitutes adequate FSS Program progress on the part of housing authorities. We further recommended that HUD include a requirement in the NOFA that housing authorities certify to the Department as to the performance of their Program Coordinators, and that this certification be subject to independent verification by HUD.

We subsequently removed our nonconcurrence based on an explanation by HUD staff as to how the progress of FSS service coordinators will be assessed and assurances that a program notice would be issued in the future to further explain how such progress is to be measured. This notice was issued on July 7, 1998. The subject NOFA was published in the Federal Register on June 1, 1998.

Notices

Public Housing Total Development Cost and Cost Control Policy

The purpose of this draft Notice is to revise and clarify the Department's Total Development Cost (TDC) policies and fund allocation controls applicable to the development of public housing and other eligible replacement housing under HOPE VI Agreements and Annual Contributions Contracts. The Notice was proposed primarily because of the high per-unit costs of HOPE VI developments.

We nonconcurred in the Notice for several reasons. One of the primary reasons was the fact that the Notice involved significant revisions and clarifications of HUD's public housing development policies, which appeared to encompass rulemaking. As a result, we recommended that the changes set forth in the Notice be published in the Federal Register for public comment, and that the final changes be reflected in the Department's Code of Federal Regulations. In addition, we recommended that HUD prepare an analysis comparing potential cost results under its old and new development cost policies and demonstrate how its new policies will address concerns about the high per-unit costs of developing housing under the Department's HOPE VI Program. Also, we recommended that the Notice provide for the application of HUD's subsidy layering requirements to all public housing development projects, particularly since the Notice stated that PHAs could exceed HUD's TDC limits using non-public housing funds (other HUD or non-HUD funds). In addition, we recommended that the Notice require PHAs to demonstrate that any costs above TDC limits will not result in funding items that would cause substantially increased operating, maintenance or other costs to be incurred in the operation of the projects involved.

We further recommended that the Notice provide some general guidance as to the types of eligible costs that fall within the Community and Supportive Services category, and that the Notice explain in more detail how the per-household cap for this cost category is to be adjusted for inflation.

As of the close of the semiannual reporting period, HUD had not resolved our nonconcurrence and had not issued the subject Notice.

Providing Assistance to Non-Low Income Indian Families

The primary purpose of this program Notice is to provide instructions for implementing section 201(b)(2) of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), which permits Indian Tribes/Tribally Designated Housing Entities to provide housing assistance to non-low income Indian families under certain circumstances.

Our office nonconcurred in the June 1998 draft of this Notice. We advised HUD that the Notice was confusing because its title and background section referred only to assisting non-low income Indian families, whereas the Notice also encompassed assisting non-low income, non-Indian families. Also, we recommended that HUD clarify and expand the Notice's definition of "housing need" as it pertained to non-low income Indian family applicants. We questioned how tribal recipients were to verify the condition of an applicant's existing housing since the Notice was silent on this matter. In addition, we pointed out that the Notice did not provide any guidance for determining the type and level of justification required by tribal recipients to substantiate their determinations

that the presence of non-Indian families on reservations was essential to the well-being of Indian families residing on the reservations. Further, we recommended that other provisions of the Notice be clarified.

HUD deleted any references to assisting non-Indian families in the Notice and adequately addressed all our other concerns; therefore, we removed our outstanding nonconcurrency in September.

HUD had not yet published its final Notice as of the close of the semiannual reporting period.

***Executing or
Terminating
Leases on
Moderate
Rehabilitation
Units***

This Notice provides procedures for housing authorities when Section 8 Moderate Rehabilitation dwelling leases are terminated by tenants, owners, or housing authorities and when, at the time of lease termination, the remaining term of the Housing Assistance Payment (HAP) contract is less than 12 months.

Our office nonconcurred in the May 1998 draft of this Notice. The Notice acknowledged that HUD's regulations prohibit owners from reoccupying units with new families when the units' leases end with less than 12 months remaining on the HAP contract. The Notice, however, authorized housing authorities to permit owners to execute leases with newly assisted families for periods shorter than 12 months if the units become vacant and less than 12 months remain on the HAP contract. We advised the HUD program office that the policy change stated in the Notice involved either a revision or waiver of HUD's regulations, and as such, a HUD issued Notice was not the proper vehicle for promulgating the policy change. Therefore, we recommended that HUD either follow standard rulemaking procedures or publish a regulatory waiver in the Federal Register pursuant to section 7(q) of the Department of Housing and Urban Development Act.

As of the close of the semiannual reporting period, HUD had not issued this Notice.

***Section 8
Contracts
Expiring in
FY 1999***

A HUD Notice was proposed to provide guidance to project owners, management agents, contract administrators, and HUD staff for the renewal of Section 8 contracts expiring in FY 1999 and handling future rent increases.

The Notice provided that any future rent adjustments after the initial renewal will be determined by applying an operating cost adjustment factor each year. A comparability study would not be required to make sure that rents are comparable with unassisted units in the market place.

We nonconcurred on the Notice because limits should be placed on rent adjustments so rents are not allowed to exceed rents of comparable unassisted units. This would address the findings and concerns of the Congress, as stated in the Mark-to-Market legislation, that housing units receiving project-based rental assistance have rents that are higher than the rents of comparable, unassisted rental units in the same housing rental market. The Mark-to-Market legislation specifically states that for FY 1999 and henceforth, Section 8 assistance is to be provided at rent levels that do not exceed comparable market rents for the market area. HUD has agreed to include provisions in the Notice that will require a rent reasonableness test with comparable unassisted rents.

HUD also agreed to tighten the procedures for ensuring that only eligible owners would be offered contract renewals and only eligible tenants offered tenant-based assistance if an owner opted out of the Section 8 Program.

The Notice was issued in October 1998.

***Up-Front
Grants in the
Disposition
of
Multifamily
Housing***

Our comments on this Notice, on which we nonconcurred, are for the most part the same comments we made in March 1998 on the proposed rule on the same subject. The Notice has not been issued and our nonconcurrence remains open.

According to the Notice, the total grant is limited to 50 percent of total development costs, not to exceed \$40,000 per unit. We recommended the grant amount be further limited by applying the 50 percent of development costs to just those units being provided as affordable. Providing grants for housing units not occupied by low- or very low-income families or for non-dwelling space is not an efficient use of Section 8 funds.

Eligible projects must be located in markets where the vacancy rate of habitable, affordable, multifamily housing is 7 percent or less. This requirement conflicts with the already existing definition in the property disposition regulations for sufficient habitable, affordable rental housing. The existing regulations consider several factors in defining "sufficient housing," including low vacancy rates, which are defined as "typically a four percent vacancy rate, except that a rate lower than four percent may be considered in unusual circumstances."

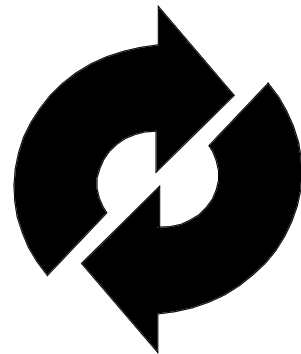
***HUD Disaster
Recovery Initiative***

This Notice describes the policies and procedures applicable to the HUD Disaster Recovery Initiative for Fiscal Year 1998. The 1998 Supplemental Appropriations and Rescission Act (Public Law 105-174) appropriated \$130 million of additional Community Development Block Grant funds for use only for disaster relief, long-term recovery, and mitigation in communities affected by Presidentially declared disasters designated during Fiscal Year 1998. The law required that the Secretary publish a Notice in the Federal Register governing the allocation and use of the Community Development Block Grant funds made available for disaster areas.

We questioned whether the Notice satisfied the requirements of the law. Specifically, we noted that the criteria to be used for allocation were not the same as stated in the law and that the method of allocation was not sufficiently defined. We met with program officials in September 1998 to discuss our concerns. While agreement was reached to change the Notice to address our concerns, HUD had not yet revised the Notice at the end of this semiannual reporting period.

Audit Resolution

Audit resolution is the process where OIG and HUD management agree to needed changes and timelines for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant issues where actions on audits have been delayed, or actions were prematurely reported as complete. In addition to this Chapter on audit resolution, see Appendix 2, Tables A and B.



Delayed Actions

City of New York Department of Housing Preservation and Development

Issued January 29, 1993. Our report recommended repayment of more than \$22 million of ineligible expenditures to the City's Community Development Block Grant (CDBG) Program. The City agreed to repay \$4.5 million over 5 years and, thus far, has made 2 payments of \$900,900, or a total of \$1,801,800.

The remaining \$17 million involves the inappropriate use of CDBG funds to pay for liability insurance for employees involved in the City's property management program. The Office of Community Planning and Development (CPD) in Headquarters determined it was appropriate to pay the insurance, but hired a consultant to review the reasonableness of the costs. The consultant's report, submitted to CPD in September 1997, concluded that the insurance expenditures were reasonable, but raised two areas of concern. First, it questioned an apparent \$80,000 overpayment of a short-rate cancellation penalty. Second, it reported \$1.2 million in premiums could have been saved by recomputing the insurance policies at renewal. The consultant's report generated disagreement between the City and the consultant on events that happened so long ago.

The Headquarters Office of CPD has requested that the recommendations be closed. OIG is currently reviewing the documentation submitted by the consultant, the City, and CPD to determine whether we agree. (Report No. 93-NY-241-1002)

Riverside South Apartments

Issued February 21, 1997. The mortgagee of Riverside South Apartments submitted an application for \$356 million of mortgage insurance under Section 220 of the National Housing Act. OIG reviewed the application and concluded that the FHA should not take the risk of insuring the proposed mortgage for three reasons. First, only 333 out of the 1,663 units to be developed would have been used for low- and moderate-income housing. Second, immediately following the endorsement of the mortgage, nearly one-fourth of the security for the mortgage, which constituted a park and a pier, would have been given to the City of New York. Consequently, in the case of default, a potential significant loss to the FHA insurance fund was a practical certainty. Third, there was a question whether the Congress authorized FHA to insure a park and pier. We recommended that FHA: (1) not bear the risk of insuring the proposed mortgage; (2) immediately place a limit on items such as parks and piers; and (3) provide better guidance to its field offices on FHA processing procedures.

The mortgagee subsequently withdrew its application for \$356 million in mortgage insurance. This action in effect resolved the first recommendation. The Assistant Secretary for Housing-Federal Housing Commissioner disagreed with the need for the second and third recommendations. Therefore, on November 19, 1997, we referred the disagreement to the former Deputy Secretary. On February 12, 1998, the former Deputy Secretary responded that in view of the substantial effort that had gone into reviewing and restructuring the way HUD does business in multifamily housing, this matter should be left to the discretion of the Assistant Secretary for Housing as part of implementing the new organizational structure. In our opinion, the former Deputy Secretary did

not address the issue pertaining to how much insurance FHA should allow for items such as parks.

In August 1997, a new application was submitted to FHA that drastically reduced the project's size and mortgage amount. The request for mortgage insurance was cut from \$356 to \$180 million. OIG reviewed this application and issued a second report on December 18, 1997 (Report No. 98-NY-112-0802). Our review of the revised application resulted in the same concerns that we raised in our first report. We recommended that FHA seek a legal opinion to determine if the Congress intended for the FHA to insure mortgages that included the value of a park as an allowable amenity when it passed Section 220 of the National Housing Act.

On April 3, 1998, HUD's Office of General Counsel issued a legal opinion stating that a loan insured under Section 220 could include non-dwelling facilities such as a park, provided it was consistent with an urban renewal plan or the locally developed strategy for neighborhood improvement, conservation or preservation. Additionally, the facilities must be predominantly residential; non-dwelling facilities such as parks that are included in the mortgage must contribute to the economic feasibility of the project; and the Secretary must give due consideration to the possible effect of the project on other business enterprises in the community.

OIG reviewed the legal opinion and on April 20, 1998, wrote to the Assistant Secretary for Housing stating that the park is more of a liability, as opposed to being necessary to the economic success of the project, inasmuch as project funds must be provided to maintain the park. We suggested that the Assistant Secretary review this issue and not allow the value of the park to be included as part of the mortgage.

While HUD, the mortgagee, and the developer continued to discuss the possibility of including the park in the mortgage, HUD failed to address the two remaining procedural recommendations in our report, that is, (1) place a limit on items such as parks and piers; and (2) provide better guidance to field offices on processing procedures. Therefore, on August 21, 1998, we asked the Assistant Secretary for Housing to address the two remaining recommendations. On September 17, 1998, the mortgagee notified HUD that it was withdrawing its application for the project. While the mortgagee's action resolves our recommendation that HUD not insure the mortgage, HUD still needs to address the two remaining recommendations before this report can be considered resolved. We plan to discuss the recommendations with the Assistant Secretary. (Report Nos. 97-NY-112-0802 and 97-NY-112-0802)

HUD Contracting

Issued September 30, 1997. The report identified seven areas needing improvement. We found that HUD could improve its contract management by focusing more attention on: (1) planning, needs determination, and periodic assessments; (2) cost consciousness; (3) contractor oversight and monitoring; (4) prohibited personal services and inherently governmental functions; (5) better coordination of data systems; (6) timely contract close-out; and (7) review of interagency agreements. The lack of adequate planning, needs assessment, good initial estimates, monitoring, and control of costs on several multimillion dollar contracts has made HUD vulnerable to waste and abuse. HUD managers have abdicated their procurement and contract oversight responsibilities with

costly consequences. On several contracts, HUD used an indefinite quantity/task order process to expedite procurement, but the combination of vague work orders, inadequate estimates and lack of oversight led to incumbent contractors holding HUD hostage to the contract. As a result, HUD found itself in some financially unsound and costly long-term arrangements. HUD's contracting problems were compounded over the past 4 years due to a lack of integrated financial and management data systems, dwindling experienced staff resources, and the proliferation of new programs and initiatives.

HUD management responded to the report on March 10, 1998, and initiated several procurement reforms including: (1) establishment of a Chief Procurement Officer; (2) mandatory training and certification for Government Technical Representatives and Monitors (GTR/GTMs); (3) adding performance standards to evaluate the performance of all GTR/GTMs; (4) requiring the Office of General Counsel to establish a team of contract specialists to review contract terms and assist in negotiations; (5) standardizing GTR/GTM recordkeeping and making integrated financial payments data systems accessible to GTR/GTMs; and (6) utilizing a General Services Administration (GSA) schedule contractor for major contracts where a GSA schedule meets HUD's needs.

OIG responded to HUD management and requested additional information on how and when some of their proposals would be implemented and/or completed. On September 24, 1998, OIG met with HUD management to discuss and clarify the unresolved matters. While management decisions have not been reached on all recommendations, HUD is making good progress in improving the procurement process. OIG is continuing to work with HUD management to improve its contract management. Refer to Chapter 1 for additional information on HUD contracting. (Report No. 97-PH-163-0001)

***Section 203(k)
Rehabilitation
Mortgage Insurance
Program***

Issued February 6, 1997. Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and an inordinate rate of default on their loans. Because of the serious potential drain on the insurance fund due to these types of loans, we recommended that HUD no longer allow investors to participate in the program. Instead, HUD placed a temporary moratorium on investor participation.

On June 9, 1997, this matter was referred to the former Deputy Secretary, and on June 30, 1997, we briefed him on the issues. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decides whether to implement a new rehabilitation program. While we believe HUD should permanently ban investors from the 203(k) Program as it has done in other Single Family Programs, the suspension is an acceptable interim solution; however, OIG will continue to maintain the position that investors should be banned from the Section 203(k) Program. (Report No. 97-AT-121-0001)

***Section 203(k)
Rehabilitation
Mortgage Insurance
Program***

Issued May 1, 1998. We completed an audit of the Section 203(k) Program as it pertains to owner/occupant borrowers. We found incomplete and poor rehabilitation work even though inspectors had certified the work was properly completed. As a result, HUD's risk was increased and the borrowers' living conditions were poor.

The Office of Housing drafted a proposed change requiring lenders to field review the final inspection report for a sample of lenders' loans, but the change has not been issued. We recommended that the Office of Housing proceed with issuance of the change, but Housing has not responded to our recommendation. Therefore, we referred this issue to the Acting Deputy Secretary on October 5, 1998. (Report No. 98-AT-121-0002)

***Memphis
Housing
Authority***

Issued January 13, 1997. The Memphis Housing Authority (MHA) is and has been unable to provide decent, safe, and sanitary housing for its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated, and ineffective maintenance has been a long-standing problem. These conditions are identical to those found in a 1983 OIG audit of the MHA (Report No. 83-AT-201-1039). Prior efforts by HUD, audits by OIG, and management reforms at the MHA have not been effective in reversing the trend. We recommended that HUD declare the MHA in substantial default and privatize or jointly manage MHA's maintenance and modernization operations.

HUD disagreed with our recommendations. Therefore, on August 1, 1997, we referred the report recommendations to the former Deputy Secretary. On September 11, 1997, the Inspector General met with the former Deputy Secretary and the Assistant Secretary for Public and Indian Housing and reached an agreement. With the exception of the recommendation to declare the MHA in substantial default, the MHA and HUD entered into a performance agreement that provides for contracting out the management of the MHA maintenance program, addresses improvements to the management of the modernization program, and sets goals and objectives including benchmarks and timelines for improving the management and processes of the MHA. Should the MHA fail to achieve the targets, HUD may declare the MHA in substantial default under its Public Housing and Section 8 Annual Contributions Contracts. OIG reviewed the performance agreement and agreed with the provisions. HUD and the MHA executed the agreement on June 18, 1998. (Report No. 97-AT-201-1001)

***Beaumont Fair
Housing and Public
Housing Offices***

Issued June 3, 1997. We audited the Beaumont Fair Housing and Public Housing Offices to determine if the offices were effectively accomplishing their mission and had the necessary funding to carry out court ordered requirements. We found that the Beaumont Offices are not achieving their mission and recommended that HUD initiate action to close the Offices and transfer their duties and functions to the Fort Worth and/or Houston Offices. HUD's Office of General Counsel is currently working with the court because the court must approve any action HUD elects to take. (Report No. 97-FW-174-0001)

***Audits of Bond
Refundings of Section
8 Projects***

Issued October 30, 1992, and April 30, 1993. In our Semiannual Report for the period ending March 31, 1997, we identified these as two reports for which we reopened seven recommendations because corrective actions were not implemented. The recommendations in these audit reports provided HUD opportunities for saving Section 8 subsidies of approximately \$278 million. We previously reached agreement with management on all but two of the seven recommendations. We do not agree with the Assistant Secretary for Housing's proposed course of action on two remaining recommendations.

We reported that two of three State Housing Finance Agencies (HFAs) reviewed had violated regulations by collecting both an administrative fee and an override on the bonds. The administrative fees collected duplicated the compensation allowed under the override. The Office of Housing's current position is to prevent HFAs from collecting both fees on future deals; however, HFAs will be allowed to continue to collect both fees on previous deals if they request a waiver and justify keeping both fees. We believe the HFAs that violated regulations by collecting both an administrative fee and an override created a valid debt to HUD. We believe it would be inappropriate to grant HFAs waivers on the basis that monies obtained by violating regulations are now committed for legitimate purposes. Also, waivers would be unfair to those HFAs that abided by the regulations. We referred this matter to the former Deputy Secretary on November 19, 1997, and met with him on January 22, 1998. At the meeting, the former Deputy Secretary requested HUD's Office of General Counsel to provide a legal opinion on whether the Office of Housing's action in granting waivers to HFAs violated debt collection statutes. We received the legal opinion on October 14, 1998, and are in the process of reviewing and responding to it. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

***Excess Insurance
Proceeds***

Issued February 5, 1997. Our multi-district audit found that HUD had paid out \$17.1 million in excess insurance proceeds for 82 multifamily insured housing developments. The audit recommended that the Office of Housing, in conjunction with the Office of General Counsel, publish regulations dealing with the prospective accumulations of excess insurance proceeds. The audit also recommended that Housing take action to ensure its data systems identify bond-financed multifamily projects and require asset managers to verify that trustees disburse excess insurance proceeds appropriately.

Housing's original corrective action plan dated January 27, 1997, was in response to our draft report and was amended on June 5, 1997. That plan indicated that all corrective action would be accomplished by March 31, 1998. This goal date was not met and the issues are still not resolved. Housing amended their action plan on September 24, 1998, and included new goal dates. Housing advised that it intends to issue a Mortgagee Letter by December 31, 1998, to advise mortgagees that bond-related information and documentation will be required when a mortgagee submits a claim for insurance on a project where a mortgage was funded with bond proceeds. Housing also advised that review procedures would be revised by January 31, 1999, to include a review of bond-related documentation to determine the basis for laying claim to excess bond (insurance) proceeds. Regarding the need to improve Housing's data systems to identify and track bond-financed HUD insured loans, Housing advised that the identification of multifamily insured loans financed with bonds would be included in the Phase 4 release of the Real Estate Management System, with a target date of September 30, 1999. (Audit Related Memorandum No. 97-KC-1120-0801)

***Low-Income
Housing Tax
Credits Program***

Issued May 23, 1997. The Department does not have adequate controls to ensure developers do not reap windfall profits when low-income housing tax credits are combined with HUD housing assistance to develop multifamily developments. We recommended that the Offices of Community Planning and Development, Housing, and Public and Indian Housing, and the National

Council of State Housing Finance Agencies form a task force to address this issue. The task force was to develop a legislative proposal for subsidy layering guidelines to be used by HFAs on developments combining low-income housing tax credits and HUD housing assistance.

On July 21, 1997, CPD responded to the report and stated that a task force should not be formed, since the Congress intended to give maximum authority and discretion to local officials in administering CPD Programs. OIG agreed with CPD's position.

On August 13, 1997, Housing promised to issue a Notice requiring the use of National Council of State Housing Finance Agencies' guidelines during subsidy layering reviews when Housing programs were combined with tax credits. A Notice was prepared and placed into Departmental clearance, but was never issued.

On August 17, 1998, Public and Indian Housing stated that it did not intend to take any action to form a task force to prepare unified subsidy layering guidelines. On September 15, 1998, we asked Public and Indian Housing to reconsider their decision, but we have not received a response.

Unless Housing and Public and Indian Housing provide guidelines and controls for performing both in-house and state credit agency reviews, no one will be held accountable for excessive subsidies to developers. Because OIG disagrees with Housing and Public and Indian Housing, we plan to elevate this issue to the Acting Deputy Secretary for resolution. (Report No. 97-KC-117-0001)

***Housing
Authority of
the City of Las
Vegas (HALV)***

Issued February 23, 1996. The HALV used federally assisted low-rent funds to support other non-assisted housing projects. We first reported this practice in 1989 when we reported that the HALV had misused over \$6 million. Three years later, in 1992, we showed that the HALV continued to improperly use federal funds, increasing amounts due to over \$6.5 million. Seven years later, in 1996, we found that the improper practices continued, increasing the ineligible expenditures to over \$7 million.

In February 1997, HUD management and the HALV negotiated a \$7.2 million repayment plan. Over \$2.7 million has been repaid to HUD and \$.9 million to the Low-Rent Program. Approximately \$3.6 million is still due the Low-Rent Program. In November 1997, HUD and the HALV agreed that the HALV will pay off the \$3.6 million over a 16-year period at \$225,000 per year. HALV and HUD anticipate executing a promissory note in October 1998 for the amount still due. (Report Nos. 89-SF-209-1004, 93-SF-209-1801, and 96-SF-204-1003)

***San Diego Housing
Commission
(SDHC), Section 8
Housing Assistance
Payments Program***

Issued July 29, 1997. Beginning in 1994, the SDHC approved Section 8 contract rents that were too high and gave annual adjustments to previously established rents without determining that the adjustments were warranted. As a result, the SDHC paid more in Section 8 subsidies to some owners than what was allowed by HUD regulations. We recommended that the SDHC determine the total overpayments made since January 1, 1994, to the date that the overpayments were corrected and repay HUD from non-federal funds. The SDHC and the HUD Office in Los Angeles disagreed with our recommendation. Therefore, on November 21, 1997, we referred the matter to the Assistant Secretary for Public and Indian Housing. We met with the Assistant Secretary on February 4, 1998, and he orally agreed that the SDHC would repay the disputed overpayments, but

a subsequent written response received on February 20, 1998, was not consistent with the oral agreement. On February 24, 1998, we advised the Assistant Secretary of our disagreement in writing and he verbally expressed agreement with OIG's position; however, the Assistant Secretary resigned in March 1998 and no action was taken to ensure the agreement was implemented. On August 18, 1998, we met with the Deputy Assistant Secretary to discuss Public and Indian Housing's position on our recommendation, and on September 28, 1998, we received a written response outlining their plan to comply with our recommendation. On October 15, 1998, we wrote to Public and Indian Housing and requested clarification on two issues in their September 28 memorandum. (Report No. 97-SF-203-1005)

***Sales of HUD Owned
Properties, Single
Family Real Estate
Owned Branch,
Arizona State Office***

Issued September 4, 1997. HUD's policy on sales of real estate it owns allows mortgages to be based on the sales price, even if it is greater than the property's appraised value. This results in higher insured mortgages than HUD allows under other single family sales where HUD is not the seller, increases HUD's insurance risk and results in the victimization of low- and moderate-income first-time homebuyers who pay excessive prices for the properties. We recommended that HUD immediately change its policy on sales of HUD owned properties to comply with its policy on sales where HUD is not the seller.

On February 2, 1998, we referred this matter to the Assistant Secretary for Housing because of the lack of action on the report. We met with him on February 24, 1998, and on April 14, 1998, 7 months after report issuance, the Acting General Deputy Assistant Secretary for Housing agreed with our recommendation. On October 13, 1998, the Office of Housing issued a Notice implementing a policy change that will sufficiently address the audit recommendation. (Report No. 97-SF-123-0002)

***Maricopa County
Housing Department,
Phoenix, AZ***

Issued September 24, 1993. Our audit reported that: (1) the Maricopa County Housing Department's procurement procedures did not ensure goods and services were necessary and obtained at the best prices available through free and open competition; (2) its Section 8 procedures did not ensure rents were reasonable; and (3) its tenants may have overpaid \$235,000 annually because the Housing Department failed to update and implement utility allowances for its conventional and Section 8 Programs. We recommended that the Housing Department establish improved procurement and Section 8 procedures that meet HUD requirements, and analyze and update utility allowances and adjust tenant rents accordingly.

HUD has twice closed the report recommendations and we have re-opened them after our follow-up reviews disclosed that the recommendations had not been implemented as agreed. The most recent reopening of the recommendations was on March 31, 1998. HUD again submitted information to close the recommendations in September 1998; however, our review showed that the recommendations still have not been satisfactorily implemented 5 years after the report was issued. A major problem appears to be a reluctance by the Housing Department to comply with HUD requirements. OIG is considering recommending administrative sanctions. (Report No. 93-SF-202-1016)

***Audit of FHA's FY
1991 Financial
Statements***

Issued March 27, 1992. The audit of FHA's FY 1991 financial statements originally reported that FHA needed to improve its accounting and financial management systems. Specifically, the recommendations urged FHA to implement a systems integration strategy that would address its accounting and reporting needs. The most recent audit of FHA's FY 1997 financial statements continued to report the same problems.

FHA, in their latest action plan, states that it has prioritized systems work to maximize the use of limited resources to target those business areas with the most critical needs. As part of the Department's financial systems integration plan, a new general ledger system that is to comply with the governmentwide standard general ledger requirements was to be implemented by September 1998. A reliable general ledger supported by integrated "feeder" systems is basic to any reporting by FHA. Other elements of FHA's system upgrades are to be completed in FY 1999. The audit of FHA's FY 1998 financial statements is underway and will assess FHA's progress in correcting this long-standing weakness. (Report No. 92-TS-119/129-007)

***Audits of HUD's FY
1991 through 1997
Financial Statements***

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 7 fiscal years, beginning with Fiscal Year 1991. Various internal control weaknesses have been reported in these audits. In large part, the most recent (FY 1997) audit results reported in our previous Semiannual Report are consistent with results from prior years. HUD has been taking actions to address the weaknesses reported, and in some instances has made progress in correcting them. Although there has been some progress, material weaknesses continue with respect to the need to: (1) upgrade financial management systems, particularly those impacting Multifamily Housing Programs; (2) correct resource management shortcomings; (3) ensure that housing subsidies are based on correct tenant income; and (4) more effectively monitor program recipients. Corrective action plans have continued to change over the last 6 years. The audit of HUD's FY 1998 financial statements is underway and will assess HUD's progress in correcting these material weaknesses.

***CDBG Program, City
of Huntington, WV***

Issued on July 10, 1992. Our report disclosed that the grantee did not administer the Special Economic Development Revolving Loan Fund Program according to federal regulations and guidelines. As a result, the grantee awarded 19 ineligible and unsupported loans to borrowers amounting to \$4.5 million. The audit disclosed that the grantee was not supporting achievement of national program objectives; conducting on-site monitoring of borrowers; ensuring that funding provided to borrowers was necessary and appropriate; documenting the eligibility of borrower loan expenditures; or following its own program guidelines when processing loan applications. We recommended the grantee repay nearly \$2.18 million from non-federal funds and review loans valued at nearly \$2.48 million for compliance with CDBG and grantee regulations and requirements. The issues were referred to the Headquarters Office of CPD by the field office.

On November 12, 1997, the Deputy Assistant Secretary (DAS) for Grant Programs requested our concurrence in a revised management decision reducing the amount in question from \$4.5 to \$2.58 million and allowing the City an

opportunity to submit documentation demonstrating that the \$2.58 million spent did in fact meet program requirements.

On December 17, 1997, we notified the DAS that we disagreed with his position and recommended the matter be referred to the former Deputy Secretary for resolution. On June 30, 1998, the DAS requested a meeting with the Acting Deputy Secretary, CPD, OIG, and Office of General Counsel (OGC) to discuss the issues of disagreement.

In July 1998, CPD, OIG, and OGC met with the Acting Deputy Secretary. He ruled that 14 of the loans were satisfactorily resolved. However, for five of the loans in question, the Acting Deputy Secretary directed that CPD would instruct the City that they had one more opportunity to submit acceptable support for the loans. OIG agreed to review the support to see if it met the requirements. In September 1998, OIG reviewed additional material provided by the City in support of the loans. On October 27, 1998, OIG met with CPD and arrived at a position that will be presented to the City. (Report No. 92-PH-241-1009)

Significant Management Decisions With Which OIG Disagrees

Section 5(a)(12) of the Inspector General Act, as amended, requires that the OIG report information concerning any significant management decision with which the OIG is in disagreement. During the current reporting period, there were two significant management decisions made with which the OIG disagreed.

FY 1996 HOPE VI Grant Award Process

Issued October 20, 1997. HUD awarded \$381 million of FY 1996 HOPE VI funds to 37 ineligible applicants. The applicants were ineligible because they did not demonstrate compliance with the eligibility requirements, as specified in the HOPE VI Notice of Funding Availability (NOFA). HUD determined eligibility for the 37 applicants by revising the criteria for determining eligibility after the deadline date for submission of the applications, not properly considering NOFA eligibility requirements, or enhancing applications by considering information not provided by applicants. We concluded that HUD's funding of applicants that did not demonstrate compliance with the NOFA requirements did not comply with section 102 of the HUD Reform Act. Included in our report was a recommendation that the Department cancel a \$20 million grant awarded to the Baltimore City Housing Authority.

Because of continued disagreement with the Office of Public and Indian Housing on cancellation of the award to the Baltimore City Housing Authority, the matter was referred to the Acting Deputy Secretary on March 2, 1998. After the OIG referred the matter to the Acting Deputy Secretary, HUD officials met with the Mayor of the City of Baltimore and representatives of the Housing Authority, and on June 10, 1998, the Acting Deputy Secretary set forth a plan for resolving the disagreements. However, instead of implementing our recommendation, the Acting Deputy Secretary stated that he was not making a final decision at that time and was requesting the Housing Authority to submit revisions to their plan.

Pursuant to section 5(d) of the Inspector General Act of 1978, as amended, on September 11, 1998, the Inspector General sent a letter to the Secretary notifying him of our continued objections. Section 5(d) requires that: (1) the Inspector General notify the Secretary immediately of particularly serious or flagrant problems, abuses, or deficiencies in relation to the administration of HUD programs and operations; and (2) the Secretary transmit the Inspector General's notification to the appropriate committees and subcommittees of the Congress within 7 calendar days, along with any comments deemed appropriate. The Acting Deputy Secretary transmitted the Inspector General's letter to the Congress in a letter dated September 18, 1998. Section 229 of the Fiscal Year 1999 Appropriations Bill addressed the grant made to the Baltimore City Housing Authority by authorizing the Secretary to recapture the \$20 million; however, it stipulated that if the Secretary did recapture the \$20 million grant, the Secretary would grant priority status to any application (not to exceed the amount recaptured) submitted by the Baltimore City Housing Authority meeting the terms and criteria in the NOFA, and the Secretary would approve the grant. (Report No. 98-FO-101-0001)

***Interim Review of the
HUD 2020
Management Reform
Plan***

Issued November 25, 1997. Since our September 1997 Semiannual Report to the Congress, we have reported on the progress of HUD's reform efforts and continue to report such progress in Chapter 1 of this Report.

The HUD 2020 Management Reform Plan is one of the boldest attempts to date to overhaul and improve the Department's operations, and it comes after numerous attempts over the years to address HUD's shortcomings. The OIG's major concerns at the time we first evaluated the plan included, among other things, the fact that staffing decisions were being made at a rapid pace without an evaluation of whether the benefits of reforms outweighed the costs.

We recommended that the former Deputy Secretary suspend staffing and reorganization reforms until a cost-benefit analysis was completed, clearly documenting that the benefits to accrue from HUD's proposed reforms outweighed the costs that would be incurred. We also recommended that the former Deputy Secretary review the results of the Department's cost-benefit analysis, workload reviews, and any other reviews, and revise or redirect planned reforms, as necessary.

On March 26, 1998, the Acting Deputy Secretary advised that his office would continue the development and implementation process while allowing for flexibility to make adjustments in response to input from OIG, the General Accounting Office, and others. In July 1998, we advised the Acting Deputy Secretary that we disagreed with this approach to reform, and that the intent of our recommendations was for the Department to evaluate the cost benefit of reforms prior to placing staff in the new organizations. The OIG remains concerned that reforms may not be cost beneficial; however, since all staffing decisions have been completed, we are reporting this as a management decision with which we disagree. (Report No. 98-HQ-179-0801)